

CITY OF ROCKVILLE THRIFT PLAN

**Analysis of Investment Performance
Through March 31, 2007**



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New York, NY 10016

**Robert A. Liberto
Senior Vice President**

May 2007



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May 29, 2007

Board of Trustees
Rockville City Hall
111 Maryland Avenue
Rockville, MD 20850

Dear Trustees:

This report provides an updated analysis of the performance of the City of Rockville's Thrift Plan for the various periods ended March 31, 2007.

The Trustees selected the Principal MidCap Stock A Fund and the Principal LifeTime Separate Accounts to be added to the Plan effective April 1, 2007.

In addition we have introduced new benchmarks to the Principal Money Market Account (3-Month U.S. Treasury Bill) and the Principal Stock Emphasis Balanced Account (58% Russell 3000 Index/12% MSCI EAFE Net Index/30% Lehman Aggregate Bond Index). We feel these benchmarks are better suited in comparing the funds performance.

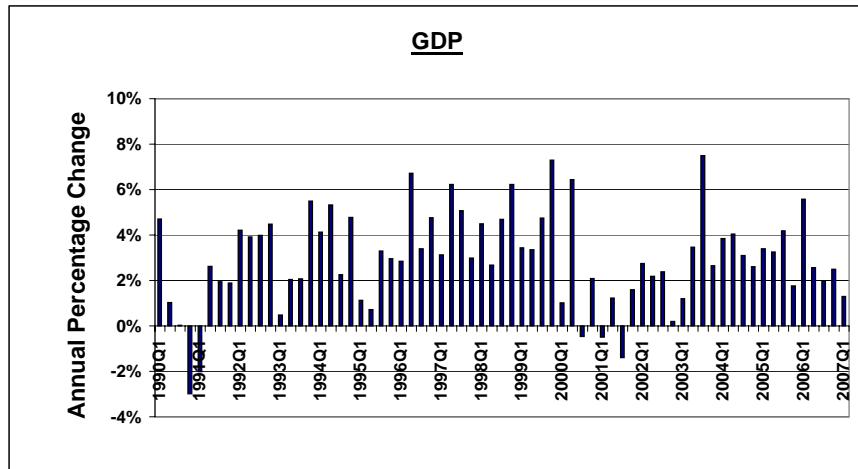
Sincerely,

Robert A. Liberto
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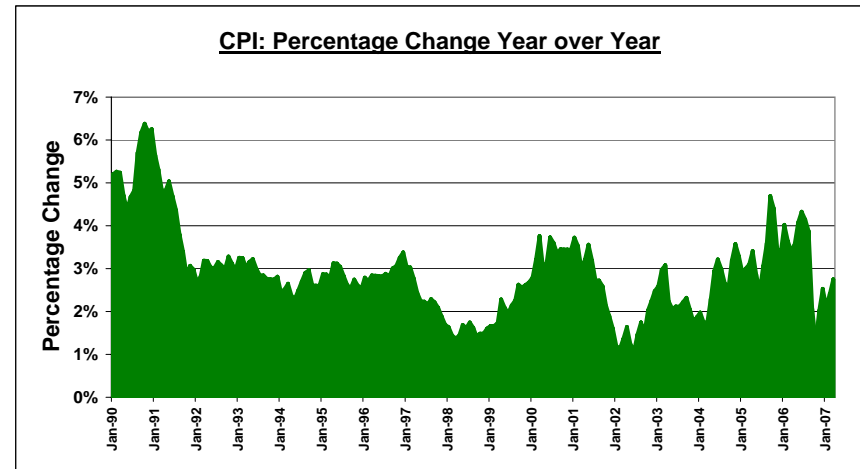
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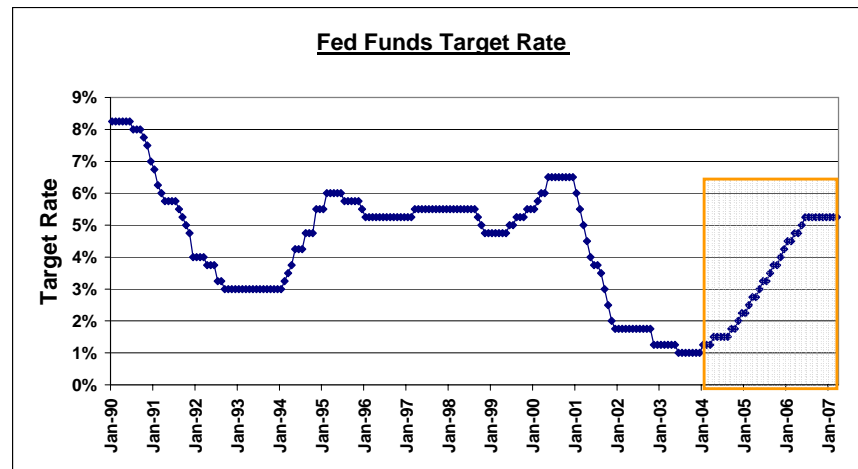
Macroeconomic Themes



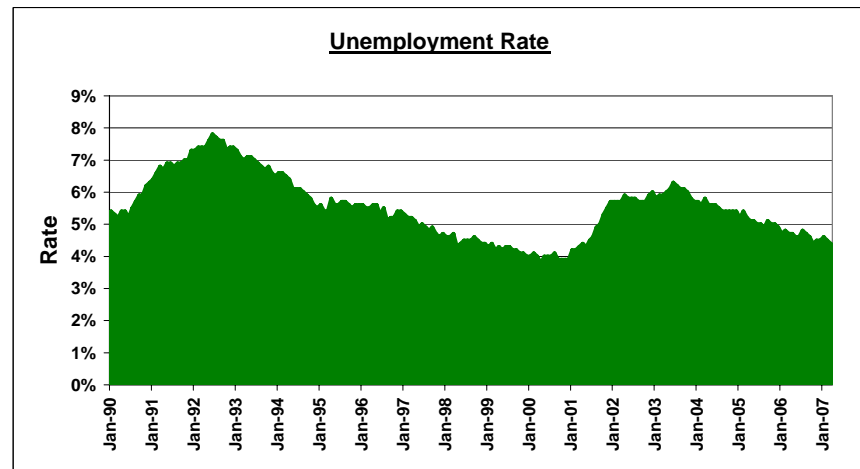
- Q1 GDP slowed to a 1.3% annualized rate, down from 2.5% in Q4 of 2006. This is below consensus expectations. The weakening was due to a worsening in trade and reduced federal government spending. Housing continued to weigh on growth.
- The decline in exports paired with increased imports, slower growth in consumer spending and decrease in federal spending led to the weakening in growth.
- Home construction has fallen for the last six quarters and is now down 17% from its peak.



- A large increase in energy prices led to stronger topline inflation; energy prices have risen an annualized 23% during the first three months of 2007.
- On a year ago basis, core CPI, which excludes food and energy, slowed to 2.5%. March saw the slowest monthly core inflation since June 2005.
- Both overall and core inflation were below consensus expectations for March.

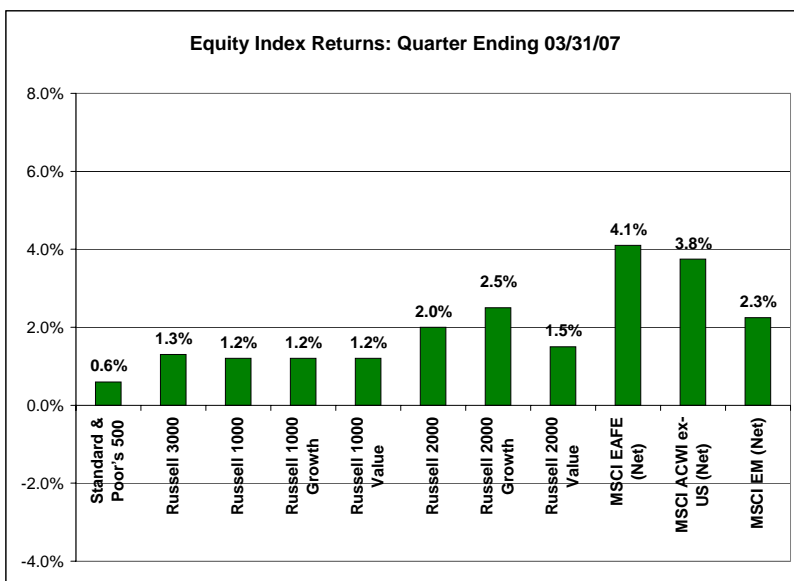


- For the sixth straight meeting, the FOMC held the fed funds rate steady at 5.25%. The committee noted "recent economic indicators have been mixed", in particular noting the housing market. The Fed removed its tightening bias, which had been in place since 2006. The statement said "the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected."
- The committee had raised the fed funds rate 25 basis points at 17 consecutive meetings, with the policy rate increasing from 1% to 5.25% from June '04 to June '06.



- The unemployment rate declined slightly to 4.4%, as payroll employment increased more than expected. Average monthly gains during Q1 2007 were roughly 152,000, which implies a healthy pace of growth.
- Hourly earnings increased to \$17.22 in March; over the year, earnings are up by 4%.
- The workweek, manufacturing workweek and manufacturing overtime all increased during the quarter.

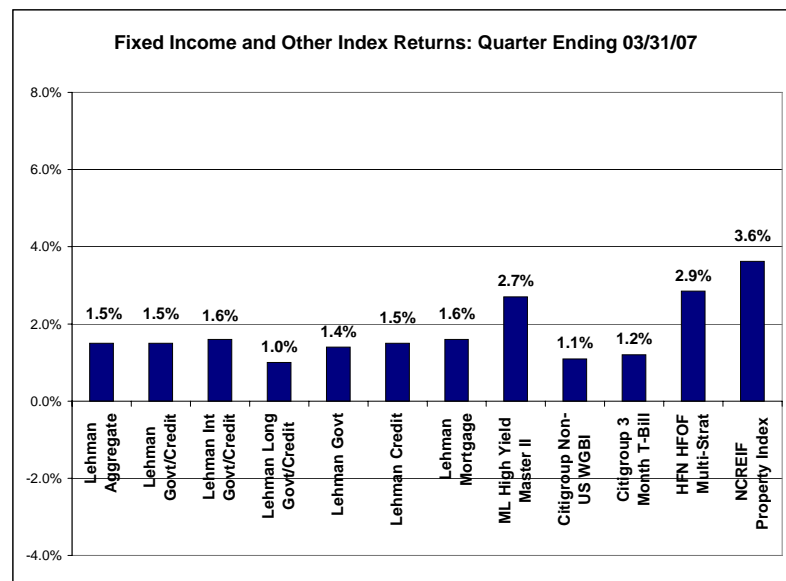
Selected Equity and Fixed Income Index Rates of Return for Periods Ended March 31, 2007



Equity Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
Standard & Poor's 500	0.6%	0.6	11.8	10.1	6.3	8.2
Russell 3000	1.3%	1.3	11.3	10.8	7.2	8.7
Russell 1000	1.2%	1.2	11.8	10.7	6.9	8.6
Russell 1000 Growth	1.2%	1.2	7.1	7.0	3.5	5.5
Russell 1000 Value	1.2%	1.2	16.8	14.4	10.3	10.9
Russell 2000	2.0%	2.0	5.9	12.0	10.9	10.2
Russell 2000 Growth	2.5%	2.5	1.6	9.4	7.9	6.3
Russell 2000 Value	1.5%	1.5	10.4	14.5	13.6	13.5
MSCI EAFE (Net)	4.1%	4.1	20.2	19.8	15.8	8.3
MSCI ACWI ex-US (Net)	3.8%	3.8	19.8	20.9	16.9	9.0*
MSCI EM (Net)	2.3%	2.3	20.6	27.5	24.5	8.8*

*For 10-year performance, Gross returns are provided.

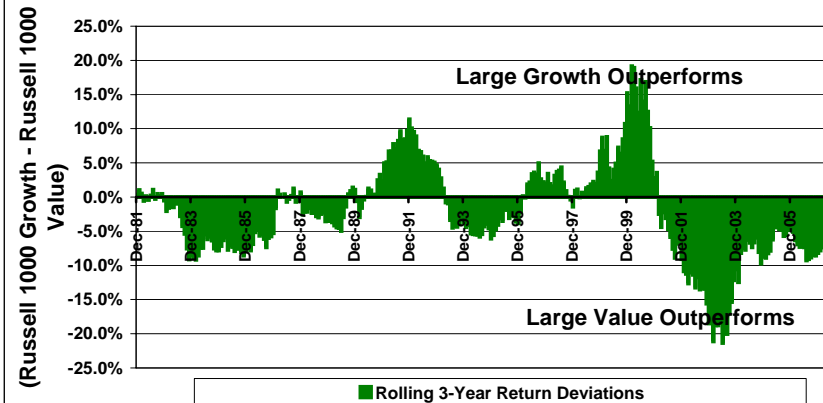


Fixed Income Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
Lehman Aggregate	1.5%	1.5	6.6	3.3	5.4	6.5
Lehman Govt/Credit	1.5%	1.5	6.4	2.9	5.6	6.5
Lehman Int Govt/Credit	1.6%	1.6	6.1	2.6	4.9	6.0
Lehman Long Govt/Credit	1.0%	1.0	7.4	4.1	7.9	8.1
Lehman Govt	1.4%	1.4	5.9	2.7	5.1	6.2
Lehman Credit	1.5%	1.5	7.1	3.2	6.3	6.8
Lehman Mortgage	1.6%	1.6	7.0	4.1	5.0	6.3
ML High Yield Master II	2.7%	2.7	11.6	8.6	10.1	6.8
Citigroup Non-US WGBI	1.1%	1.1	8.3	2.7	10.2	5.4
Citigroup 3 Month T-Bill	1.2%	1.2	5.0	3.3	2.5	3.7
<u>Other Indices</u>						
HFN HFOF Multi-Strat	2.9%	2.9	7.6	7.7	8.0	10.0
NCREIF Property Index	3.6%	3.6	16.6	17.4	13.7	12.9

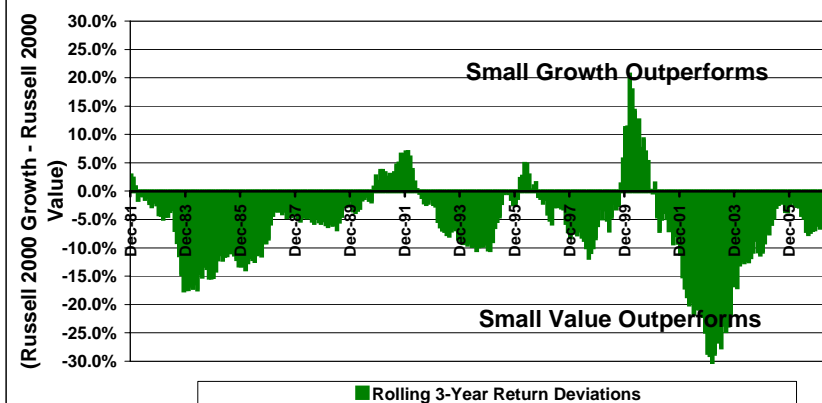
Equity Themes

Equity Style Cycle: Rolling Returns Analysis



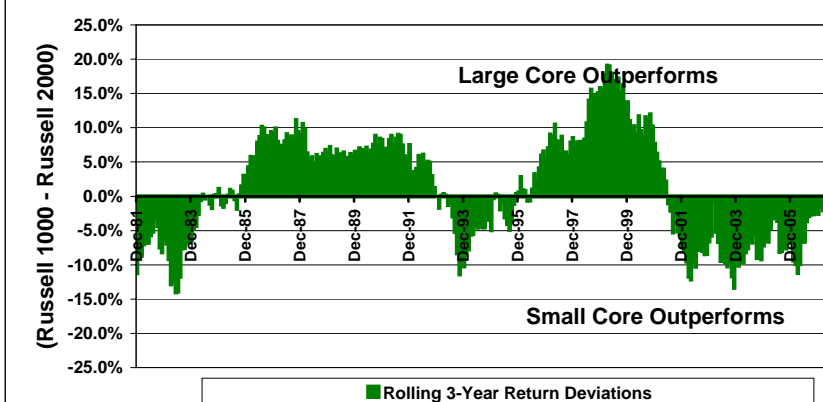
- Index Inception (i.e., January 1979): R1000V: **14.5%**; R1000G: **11.8%** (+268 bps)
- The R1000V has outperformed the R1000G in 8 of last 10 calendar years, including the last 7 in a row.

Equity Style Cycle: Rolling Returns Analysis



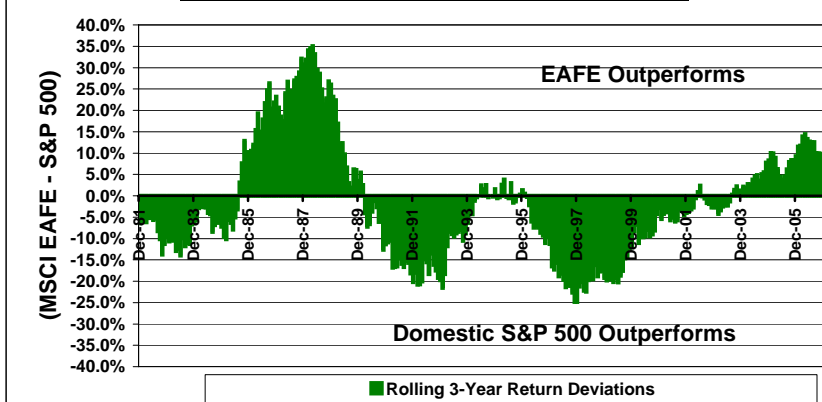
- Index Inception (i.e., January 1979): R2000V: **15.8%**; R2000G: **10.3%** (+551 bps)
- The R2000V has outperformed the R2000G in 7 of last 10 calendar years, including 6 of the last 7.

Equity Market Cap Cycle: Rolling Returns Analysis



- Index Inception (i.e., January 1979): R1000: **13.3%**; R2000: **13.4%** (-10 bps)
- The R2000 has outperformed the R1000 in 7 of last 8 calendar years.

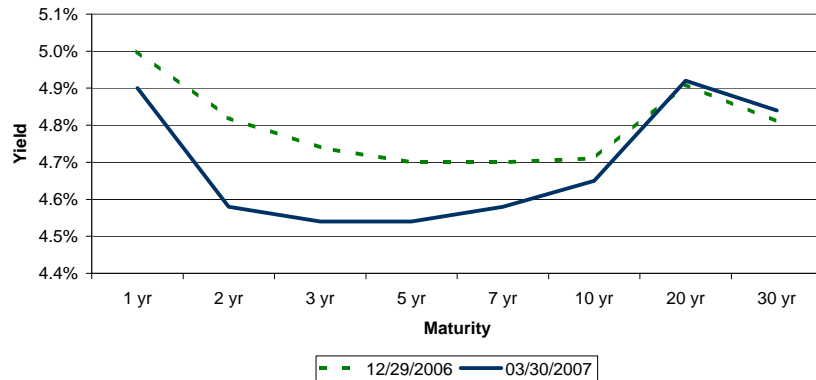
Equity Country Cycle: Rolling Returns Analysis



- Index Inception (i.e., January 1979): S&P 500: **13.4%**; EAFE: **11.4%** (+194 bps)
- The EAFE has outperformed the S&P 500 in 6 of last 10 calendar years, including the last 5 in a row.

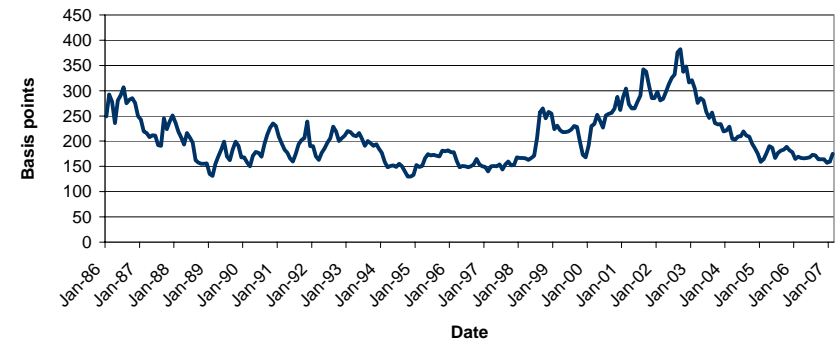
Fixed Income Themes

Treasury Yield Curve



- The yield curve steepened in the first quarter, as 2-year Treasury yields fell 24 basis points while 30-year Treasury yields rose 3 basis points.
- In February, there were concerns that weakness in the sub-prime mortgage market would spread to the rest of the economy and cause the Fed to lower interest rates to fight off a potential recession. This trend continued in March.

**Moody's Corporate-Treasury Bond Spread
Baa 10-Yr Constant Maturities**



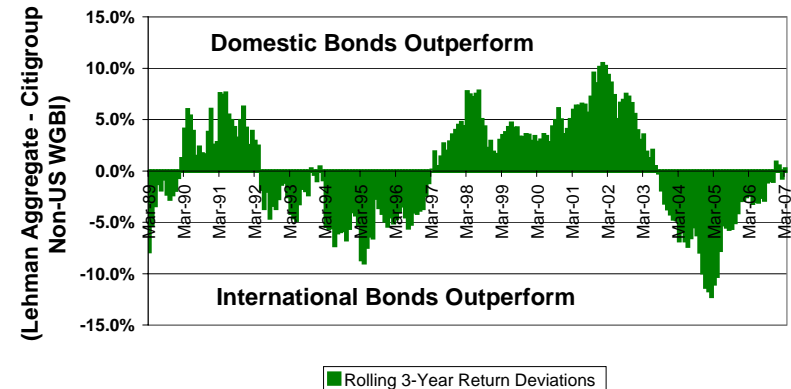
- Credit spreads continue to remain near 10 year lows.
- After tightening in January, credit spreads widened in February and March by 18 basis points due to concerns over the subprime market and a general slowdown in the economy.
- For the quarter, credit spreads widened by 11 basis points.

**Interest Rate Trends
Moody's AAA Seasoned**



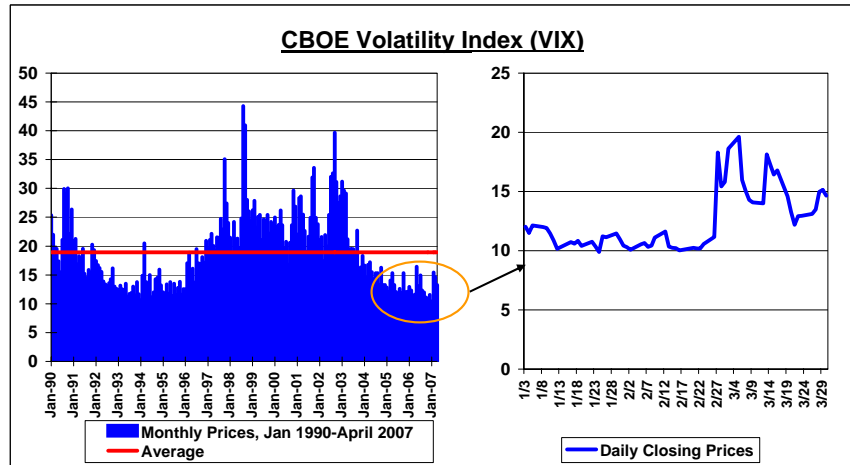
- The declining interest rate environment over the past decade has fueled fixed income returns.
- Corporate bond yields ended the quarter 3 basis points lower, at 5.43%.

Fixed Income Cycle: Rolling Returns Analysis

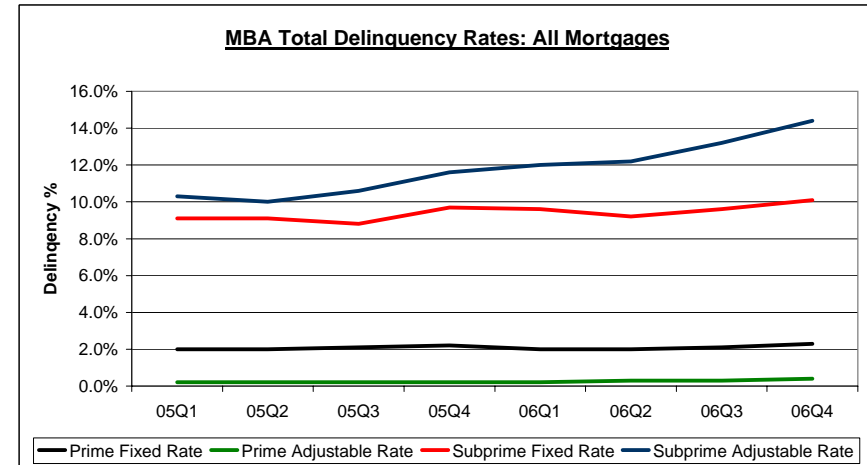


- Although international bonds have outperformed domestic bonds over the most recent 3-year rolling periods, domestic bonds have provided superior longer term returns. Over the past 10 years, the Lehman Aggregate has returned 87% on a cumulative basis, versus the Non-US WGBI cumulative return of 70%.

Themes of the First Quarter



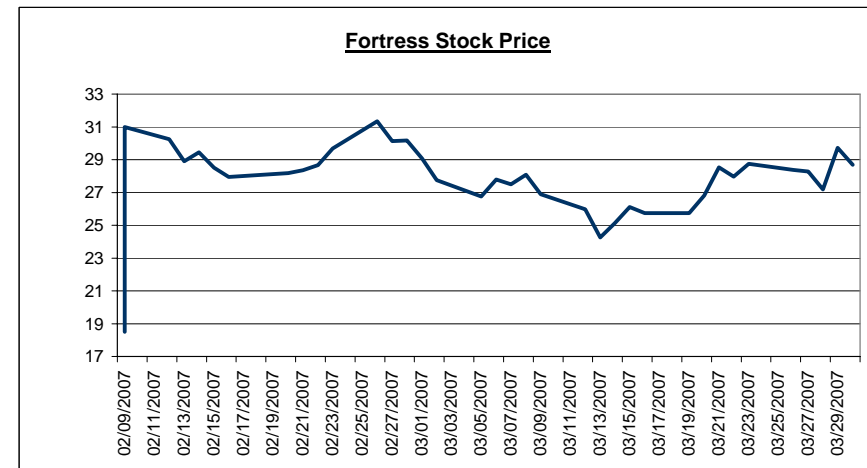
- Volatility increased significantly and quickly in late February following the decline in Chinese equities, which spilled over to markets across the globe. As markets recovered, the VIX has declined to lower levels and is still considered low by historical standards.



- Relaxed credit standards from lenders, combined with a slowdown in home price appreciation, have led to increasing defaults of subprime loans.
- A rash of defaults in the first quarter eventually forced leading subprime lender New Century to file for bankruptcy in the beginning of April and raised fears that credit problems would spread to other parts of the mortgage market.



- On February 27, 2007, the Chinese equity markets experienced their largest one-day drop in over 10 years. This sell off was widely publicized in the media and also contributed to a 3.3% sell off in the US markets, as measured by the DJIA.
- Despite its size, the plunge only erased gains accumulated over the previous six trading days and the equity market quickly recovered. The DJ China TMI rose 44% during Q1 2007 and 135% for the year ending 3/30/2007.



- Fortress became the first major hedge fund and private equity firm to go public. Investor sentiment was high, as shares jumped from an IPO price of \$18.50 to \$31 on the first day of trading.
- Shortly after, Blackstone, a large private equity firm announced its intention to IPO 10% of the company, and more private equity firms are expected to follow.

FUND DESCRIPTIONS

Fund	Objective	Description
Principal Guaranteed Interest Account	To seek stability of principal.	The Fund gives a guaranteed interest rate for a specific period of time as determined or allowed by the plan. The rate is set at the start of the plan's 12-month deposit year. Each deposit made into the account during the deposit year gets the rate. A new rate is set at the start of each deposit year.
Principal Money Market Account	To seek a high level of current income consistent with preservation of principal and maintenance of liquidity.	The Fund invests in a portfolio of high quality, short-term money market instruments. The investments are U.S. dollar dominated securities, which the sub-advisor believes present minimal credit risks. The sub-advisor maintains a dollar weighted average portfolio maturity of 90 days or less.
Principal Bond & Mortgage Account	To seek current income.	The Fund invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and U.S. government and agency-backed securities. Value is added primarily through sector allocation and security selection.
Principal Stock Emphasis Balanced Account	To seek current income and growth of capital.	The Fund primarily invests in other separate accounts offered by The Principal. It usually maintains at least 50% of assets in common stocks.
Vanguard Windsor II Fund Inv	To seek long-term growth of capital; current income is a secondary consideration.	The Fund invests primarily in undervalued stocks of medium and large companies, characterized by above-average dividend yields and below-average price/earnings ratios relative to the stock market. It may also invest up to 20% of assets in foreign securities.
Principal Large Company Value Account	To seek long-term growth of capital.	The Fund normally invests the majority of assets in companies with large market capitalizations at the time of purchase. It may invest up to 35% of assets in foreign securities.

FUND DESCRIPTIONS

Fund	Objective	Description
Principal Large Cap Stock Index Account	To seek returns in line with the S&P 500 Index.	The Fund normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Over the long-term, management seeks a very close correlation between the performance of the Separate Account before expenses and that of the S&P 500 Index.
Principal Large Company Growth Account	To seek long-term growth of capital.	The Fund primarily invests in common stocks of large capitalization companies with strong earnings growth potential. It normally invests the majority of assets in companies with large market capitalizations at the time of purchase. It may invest up to 25% of assets in foreign securities.
Principal Large Cap Growth I Account	To seek long-term growth of capital.	The Fund normally invests in growth-oriented equity securities of U.S. and, to a limited extent, foreign companies that exhibit strong, free cash flow potential. It normally invests at least 80% of assets in companies with market capitalizations larger than the median market cap of the companies in the Russell 1000 Growth Index. It may invest up to 25% of assets in foreign securities.
American Century Small Cap Value Fund Inv	To seek long-term capital growth; income is a secondary objective.	The Fund normally invests at least 80% of assets in equity securities of U.S. companies with small market capitalizations. It may invest in foreign securities, convertible securities, corporate and government debt, non-leveraged stock index futures contracts, and other similar securities.

FUND DESCRIPTIONS

Fund	Objective	Description
Principal Small Company Value Account	To seek long-term growth of capital.	The Fund invests primarily in common stocks of small capitalization companies. It normally invests the majority of assets in companies with market capitalizations similar to those companies in the Russell 2000 Value Index. It may invest up to 25% of assets in foreign securities.
Vanguard Explorer Fund	To seek long-term capital appreciation.	The Fund invests mainly in the stocks of small companies. These companies tend to be unseasoned but are considered by the Fund's advisors to have superior growth potential. These companies often provide little or no dividend income.
Principal Diversified International Account	To seek long-term growth of capital.	The Fund normally invests the majority of assets in companies in at least three different countries. It invests in securities of companies with their principal place of business or principal office outside of the U.S.; companies for which the principal securities trade on a foreign exchange; and companies, regardless of where their securities are traded, that derive 50% or more of their total revenue from goods or services produced or sold outside of the U.S. It may invest securities of companies with small to medium market capitalizations.

PLAN ACTIVITY
December 31, 2006 through March 31, 2007

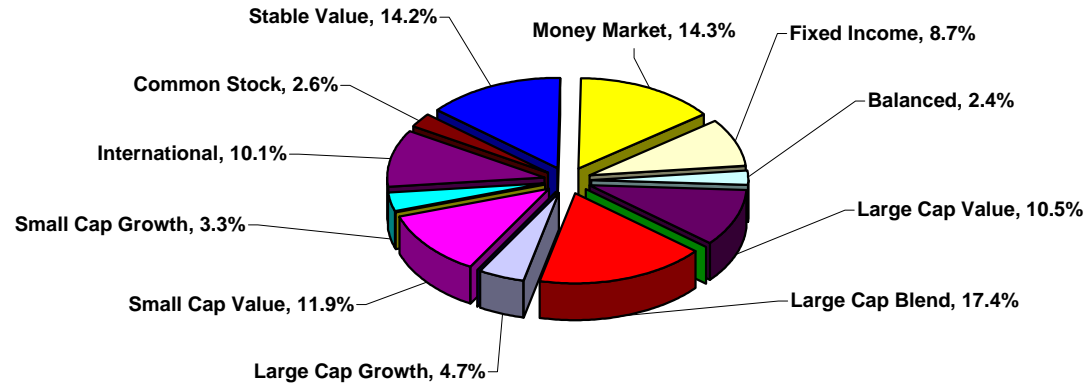
Funds	Beginning Balance December 31, 2006	Contributions	Withdrawals/ Distributions	Net Transfers	Fees	Investment Gains/Losses	Ending Balance March 31, 2007
Principal 2 Year Guaranteed Interest Account*	\$644,154	\$14,264	(\$8,736)	\$0	(\$1,143)	\$4,802	\$653,341
Principal 7 Year Guaranteed Interest Account*	\$1,381,513	\$27,295	(\$2,662)	\$0	(\$72)	\$13,586	\$1,419,661
Principal Money Market Account	\$2,002,849	\$101,873	(\$11,032)	(\$42,758)	(\$508)	\$24,590	\$2,075,014
Principal Bond & Mortgage Account	\$1,219,611	\$41,814	(\$4,552)	(\$8,148)	(\$862)	\$19,468	\$1,267,330
Principal Stock Emphasis Balanced Account	\$331,842	\$9,303	(\$1,360)	\$3,118	(\$178)	\$6,046	\$348,771
Vanguard Windsor II Fund Inv	\$1,121,663	\$32,090	(\$838)	\$25,158	(\$173)	\$18,999	\$1,196,898
Principal Large Company Value Account	\$320,084	\$12,782	(\$805)	(\$6,708)	(\$238)	\$2,618	\$327,734
Principal Large Cap Stock Index Account	\$2,469,511	\$48,668	(\$5,798)	\$5,639	(\$1,451)	\$13,231	\$2,529,800
Principal Large Company Growth Account	\$298,011	\$11,779	(\$496)	(\$3,199)	(\$88)	\$3,453	\$309,459
Principal Large Cap Growth I Account	\$101,527	\$4,536	(\$233)	\$264,540	(\$73)	\$2,780	\$373,077
American Century Small Cap Value Fund Inv	\$986,851	\$18,674	(\$34,728)	(\$490)	(\$13)	\$26,110	\$996,404
Principal Small Company Value Account	\$753,675	\$10,305	(\$38,551)	\$9,307	(\$1,291)	(\$779)	\$732,666
Vanguard Explorer Fund	\$445,308	\$17,424	(\$539)	(\$867)	(\$112)	\$16,876	\$478,091
Principal Diversified International Account	\$1,625,550	\$38,442	(\$2,409)	(\$245,591)	(\$981)	\$50,986	\$1,465,997
Principal Common Stock Account	\$376,377	\$0	(\$279)	\$0	(\$63)	\$7,065	\$383,100
Total	\$14,078,527	\$389,250	(\$112,739)	\$0	(\$7,246)	\$209,830	\$14,557,343

* Contributions include matured accounts reinvested

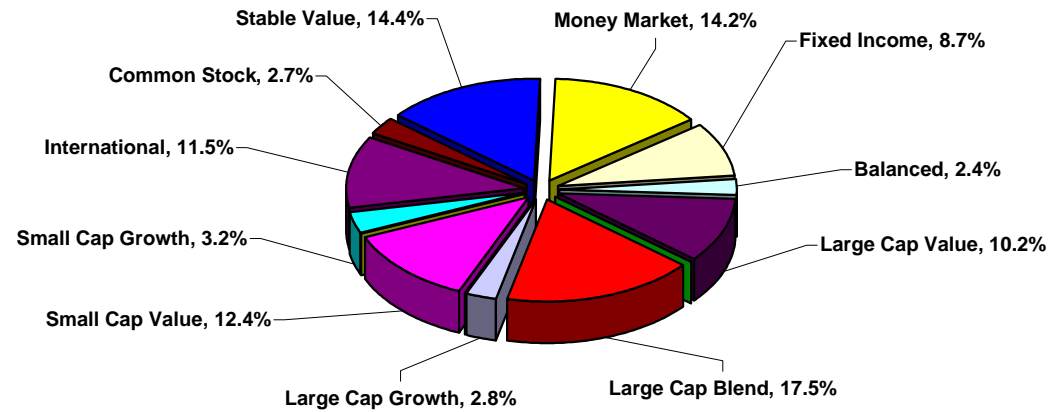
Asset Allocation Summary
As of March 31, 2007

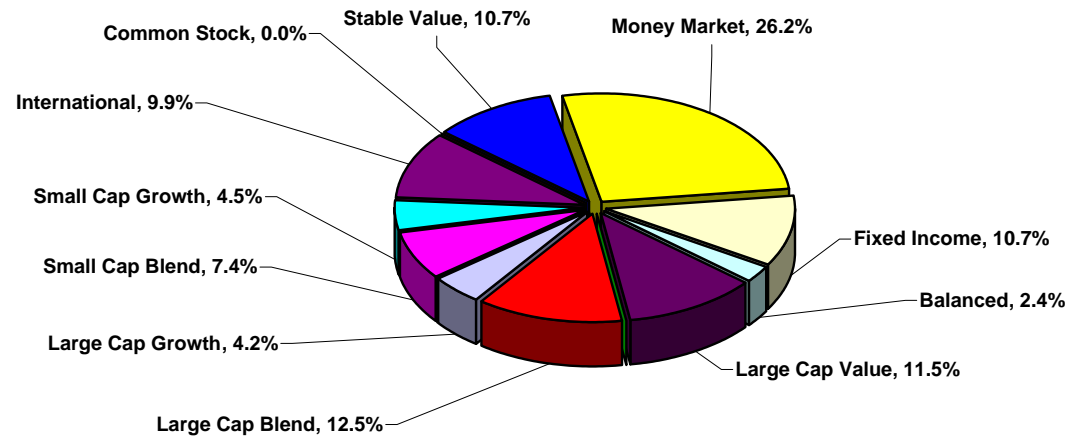
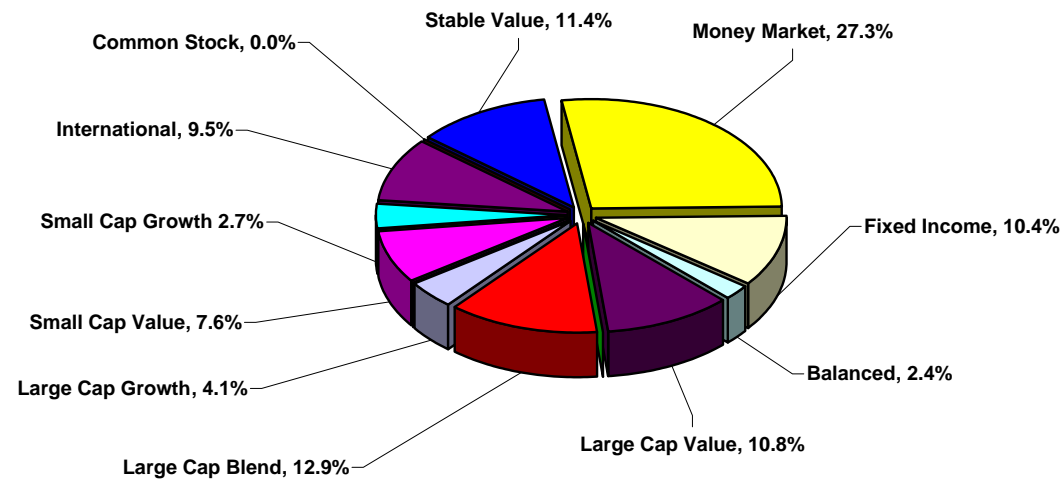
	Plan Assets	% of Total
Principal 2 Year Guaranteed Interest Account*	\$653,341	4.5%
Principal 7 Year Guaranteed Interest Account*	\$1,419,661	9.8%
Principal Money Market Account	\$2,075,014	14.3%
Principal Bond & Mortgage Account	\$1,267,330	8.7%
Principal Stock Emphasis Balanced Account	\$348,771	2.4%
Vanguard Windsor II Fund Inv	\$1,196,898	8.2%
Principal Large Company Value Account	\$327,734	2.3%
Principal Large Cap Stock Index Account	\$2,529,800	17.4%
Principal Large Company Growth Account	\$309,459	2.1%
Principal Large Cap Growth I Account	\$373,077	2.6%
American Century Small Cap Value Fund Inv	\$996,404	6.8%
Principal Small Company Value Account	\$732,666	5.0%
Vanguard Explorer Fund	\$478,091	3.3%
Principal Diversified International Account	\$1,465,997	10.1%
Principal Common Stock Account	\$383,100	2.6%
Total Assets	\$14,557,343	100.0%

1Q 2007 Asset Allocation



4Q 2006 Asset Allocation

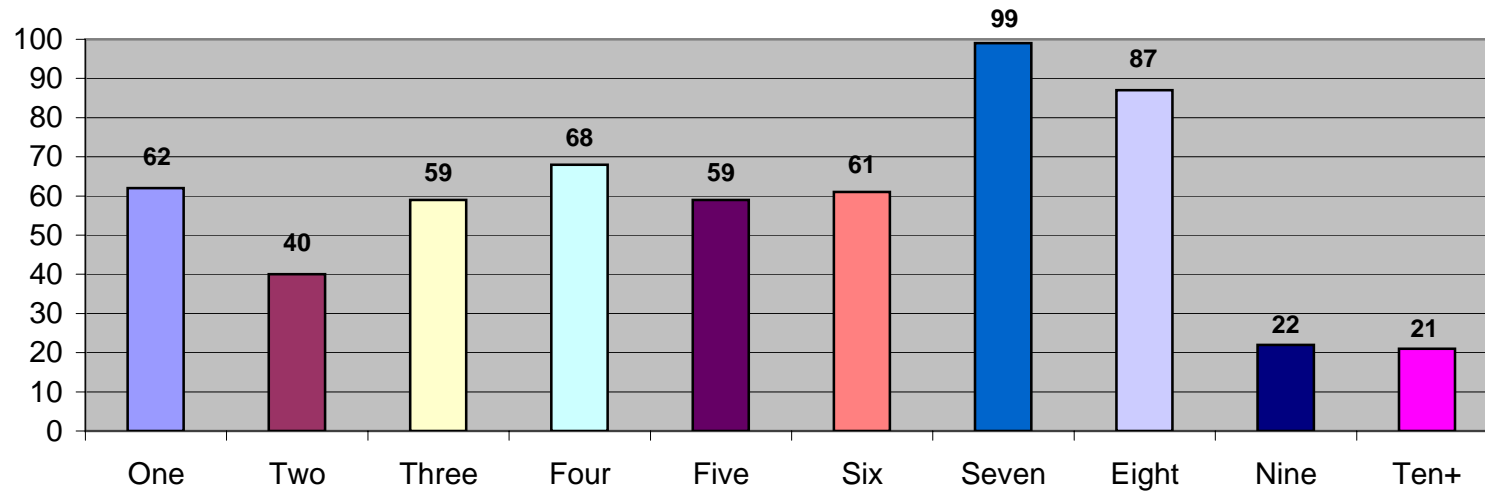


1Q 2007 Contribution Allocation**4Q 2006 Contribution Allocation**

**Principal
Participant Information**

	Number of Participants per Fund
Principal 2 Year Guaranteed Interest Account*	124
Principal 7 Year Guaranteed Interest Account*	204
Principal Money Market Account	305
Principal Bond & Mortgage Account	303
Principal Stock Emphasis Balanced Account	83
Vanguard Windsor II Fund Inv	240
Principal Large Company Value Account	219
Principal Large Cap Stock Index Account	373
Principal Large Company Growth Account	186
Principal Large Cap Growth I Account	83
American Century Small Cap Value Fund Inv	101
Principal Small Company Value Account	163
Vanguard Explorer Fund	169
Principal Diversified International Account	297
Principal Common Stock Account	222

Principal Investment Diversification as of March 31, 2007



Number of Funds	Number of Participants	Percent
One	62	10.7%
Two	40	6.9%
Three	59	10.2%
Four	68	11.8%
Five	59	10.2%
Six	61	10.6%
Seven	99	17.1%
Eight	87	15.1%
Nine	22	3.8%
Ten+	21	3.6%
	578	100%
Average number of funds being used in the Plan:		5.2
Average Account Balance		\$25,065
Total Participants in Plan		578

Principal Participant Information

	Number of "One Funders"*
Principal 2 Year Guaranteed Interest Account*	4
Principal 7 Year Guaranteed Interest Account*	2
Principal Money Market Account	50
Principal Bond & Mortgage Account	1
Principal Stock Emphasis Balanced Account	0
Vanguard Windsor II Fund Inv	2
Principal Large Company Value Account	0
Principal Large Cap Stock Index Account	0
Principal Large Company Growth Account	0
Principal Large Cap Growth I Account	0
American Century Small Cap Value Fund Inv	0
Principal Small Company Value Account	1
Vanguard Explorer Fund	1
Principal Diversified International Account	1
Principal Common Stock Account	0
Total	62

* "One Funders" represent the number of participants directing 100% of future contributions to just one fund.

Performance Summary For Periods Ended March 31, 2007

Funds	Quarter	1 Year	3 Years	5 Years
<i>Principal 2-Year Guaranteed Interest Account</i>	0.89	3.62	2.79	2.03
<i>Principal 7-Year Guaranteed Interest Account</i>	0.98	3.98	3.55	3.40
<i>Principal Money Market Account</i>	1.19	4.76	3.06	2.22
3 Month U.S. Treasury Bill	1.25	5.01	3.55	2.60
<i>Principal Bond & Mortgage Account</i>	1.59	6.76	3.57	5.64
Lehman Brothers Aggregate Bond Index	1.50	6.58	3.31	5.35
Median of the Core Fixed Income Fund Universe	1.51	6.25	3.18	5.20
<i>Principal Stock Emphasis Balanced Account</i>	1.78	10.15	11.69	9.00
Policy Index*	1.69	10.94	9.65	7.89
Median of the Balanced Fund Universe	1.63	9.04	8.15	6.67
<i>Vanguard Windsor II Fund Inv</i>	1.67	16.10	13.27	9.62
<i>Principal Large Company Value Account</i>	0.93	14.14	11.66	8.71
Russell 1000 Value Index	1.24	16.83	14.42	10.25
Median of the Large Cap Value Fund Universe	0.94	14.09	11.54	7.33
<i>Principal Large Cap Stock Index Account</i>	0.56	11.50	9.72	5.90
S&P 500 Index	0.64	11.83	10.05	6.26
Median of the Large Cap Blend Fund Universe	0.60	11.37	9.70	5.97
<i>Principal Large Company Growth Account</i>	1.11	5.90	10.06	4.66
<i>Principal Large Cap Growth I Account</i>	0.20	4.51	7.31	2.90
Russell 1000 Growth Index	1.19	7.06	7.01	3.48
Median of the Large Cap Growth Fund Universe	0.80	3.57	6.74	2.89
<i>American Century Small Value Fund Inv</i>	2.77	9.39	13.96	11.96
<i>Principal Small Company Value Account</i>	-0.10	7.03	14.45	15.44
Russell 2000 Value Index	1.46	10.38	14.47	13.61
Median of the Small Cap Value Fund Universe	3.13	8.65	13.45	13.17
<i>Vanguard Explorer Fund</i>	3.75	2.12	10.46	8.72
Russell 2000 Growth Index	2.48	1.56	9.41	7.88
Median of the Small Cap Growth Fund Universe	3.36	1.80	9.82	7.77
<i>Principal Diversified International Stock Account</i>	3.54	18.41	24.17	17.75
MSCI Net EAFE	4.07	20.19	19.82	15.78
Median of the Foreign Equity Fund Universe	3.74	18.63	19.39	15.13

*The Principal Stock Emphasis Balanced Account Policy Index consists of 58% Russell 3000 Index/12% MSCI EAFE Net Index/30% Lehman Aggregate Bond Index.

COMMENTS AND CONCLUSIONS

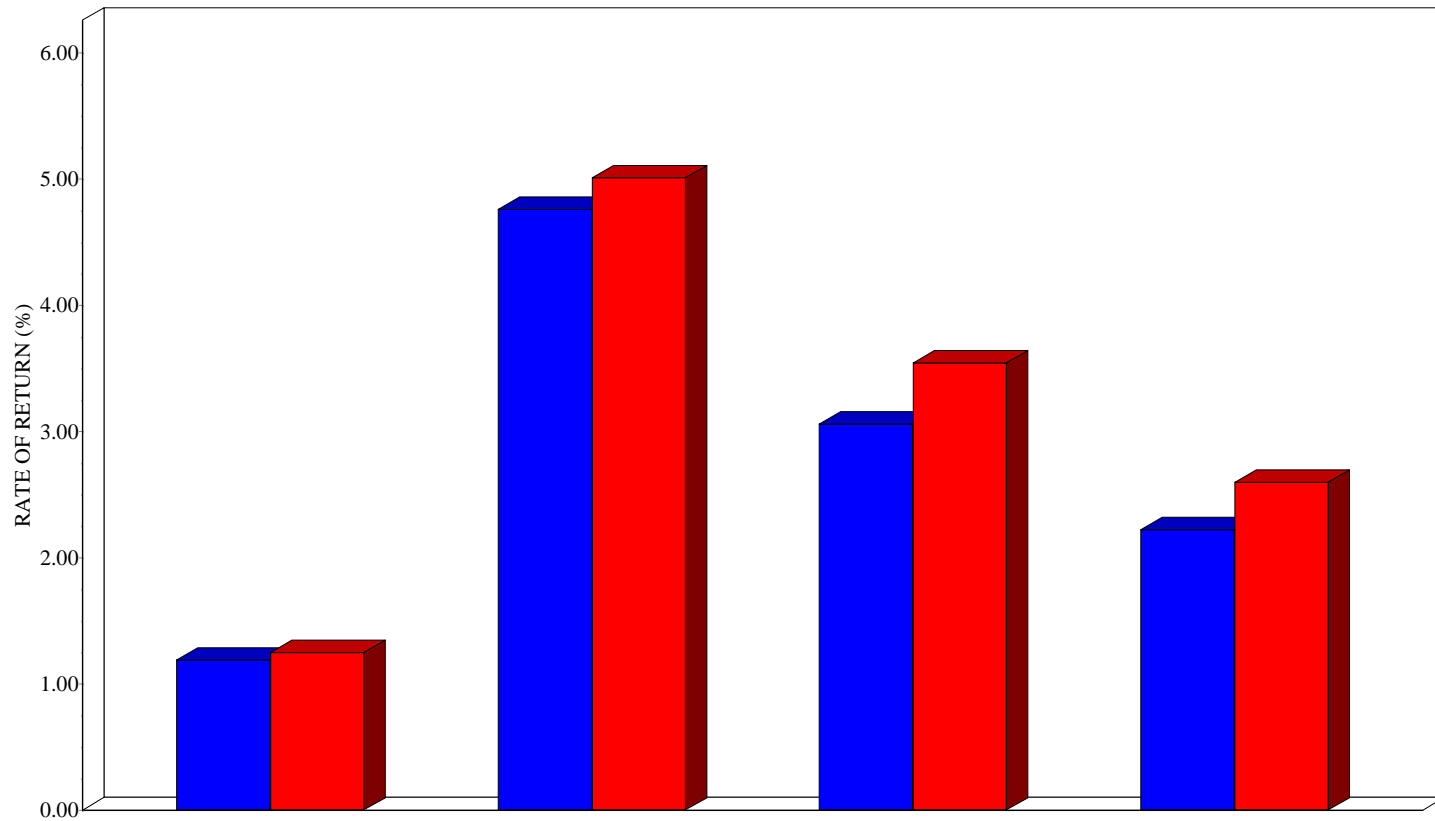
- The **Principal Large Company Value Account** underperformed the Russell 1000 Value Index for the first quarter of 2007 (0.9% vs. 1.2%), and placed slightly below the median of the large cap value mutual fund universe. Poor stock selection within the Funds top ten holdings, as well as an overweight within the financials sector, combined with an underweight within the utilities sector hurt performance for the latest three month period ended March 31, 2007. The Fund continued to lag the benchmark for the one year period posting a return of 14.1%. However, this result placed the Fund above the median of the comparative universe. In addition, the Fund underperformed the comparative Index for the three year period (11.7% vs. 14.4%), yet again placed above the median of its peer universe. According to the five year capital market line, the Fund experienced less risk (13.0% vs. 15.3%) than the Russell 1000 Value Index, and lagged the benchmark (8.7% vs. 10.3%). However, this result ranked in the second quartile of the large cap value mutual fund universe for the five year period.
- The **Principal Large Cap Growth I Account** underperformed the Russell 1000 Growth Index (0.2% vs. 1.2%) for the first quarter of 2007. This result placed the Fund below the median of the large cap growth mutual fund universe. Zero holdings within the utilities sector, combined with an underweight within the energy sector, and an overweight within the financials sector hurt performance for the three month period ended March 31, 2007. The Fund continued to lag the benchmark for the one year period posting a return of 4.5%, yet placed above the median of the comparative universe. Conversely, the Fund outperformed the comparative Index for the three year period (7.3% vs. 7.0%) and placed above the median of its peer universe. The Fund underperformed the Russell 1000 Growth Index for the five year period (2.9% vs. 3.5%) and placed at the median of the large cap growth mutual fund universe. According to the five year capital market line, the Fund lagged the benchmark while experiencing less risk (15.1% vs. 15.3%) for the five year period.

- The **American Century Small Cap Value Fund** (2.8%) outperformed the Russell 2000 Value Index (1.5%) for the three months ended March 31, 2007, yet placed below the median of the small cap value mutual fund universe. Strong stock selection within the financials and health care sectors contributed to performance for the first quarter of 2007. Conversely, the Fund underperformed the benchmark for the one year period (9.4% vs. 10.3%), yet placed above the median of the comparative universe. In addition, the Fund lagged the comparative Index for the three and five year periods posting returns of 14.0% and 12.0%, respectively. These results placed the Fund above the median of its peer universe for the three year period, and below the median for the five year period. However, according to the five year capital market line, the Fund underperformed the benchmark while experiencing less risk (15.7% vs. 18.1%). **We recommend this Fund remain on the Watchlist while we continue to monitor improving results.**

- The **Principal Small Company Value Account** underperformed the Russell 2000 Value Index (-0.1% vs. 1.5%) for the latest period ended March 31, 2007. This result ranked in the bottom percentile of the small cap value mutual fund universe. An overweight within the financials sector combined with an underweight within the telecommunications sector detracted from performance for the first quarter of 2007. The Fund continued to lag the benchmark for the one year period posting a return of 7.0%, and placed below the median of the comparative universe. For the three year period, the Fund matched the comparative Index return of 14.5%, and placed above the median of its peer universe. Conversely, according to the five year capital market line, the Fund experienced less risk (16.4% vs. 18.1%) while outperforming the benchmark (15.4% vs. 13.6%) for the five year period. This result ranked in the top quartile of the small cap value mutual fund universe.

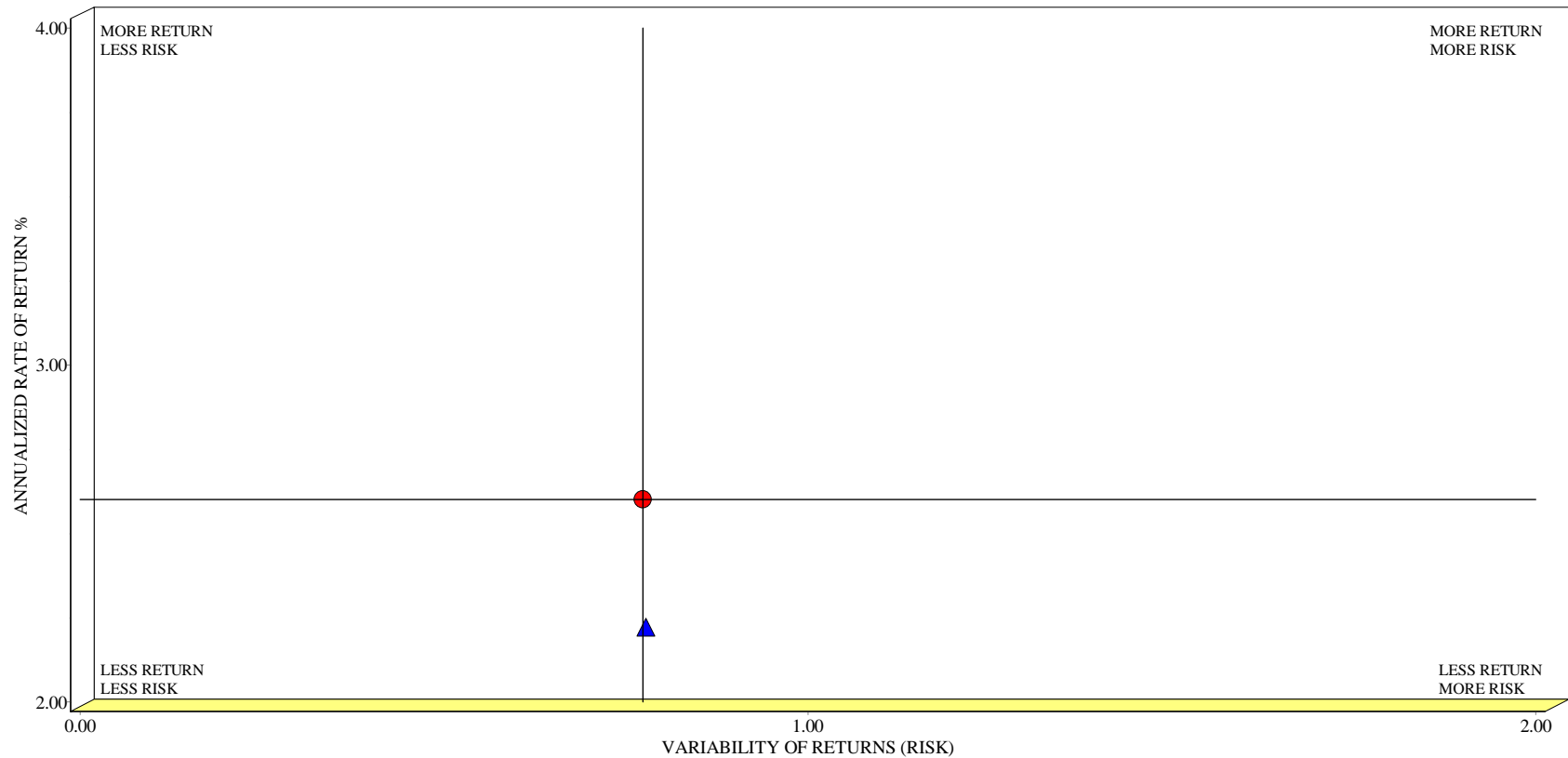
- The **Principal International Stock Account** (3.5%) underperformed the MSCI EAFE Net Index return of 4.1% for the first quarter of 2007. This result placed the Fund below the median of the foreign equity mutual fund universe. Poor stock selection within the Fund's top ten holdings, particularly Toyota Motor, the Fund's top holding, which declined 6% for the quarter, hurt performance for the latest three month period ended March 31, 2007. The Fund continued to lag the benchmark for the one year period (18.4% vs. 20.2%) and placed slightly below the median of the comparative universe. Conversely, the Fund outperformed the comparative Index for the three year (24.2%) and five year (17.8%) periods. These results placed the Fund in the top decile of its peer universe for the three year period, and in the top quartile for the five year period. According to the five year capital market line, the Fund experienced slightly more risk than the MSCI EAFE Net Index (17.4% vs. 17.3%), while outpacing the benchmark for the five year period.

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL MONEY MARKET
TIME-WEIGHTED RETURNS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



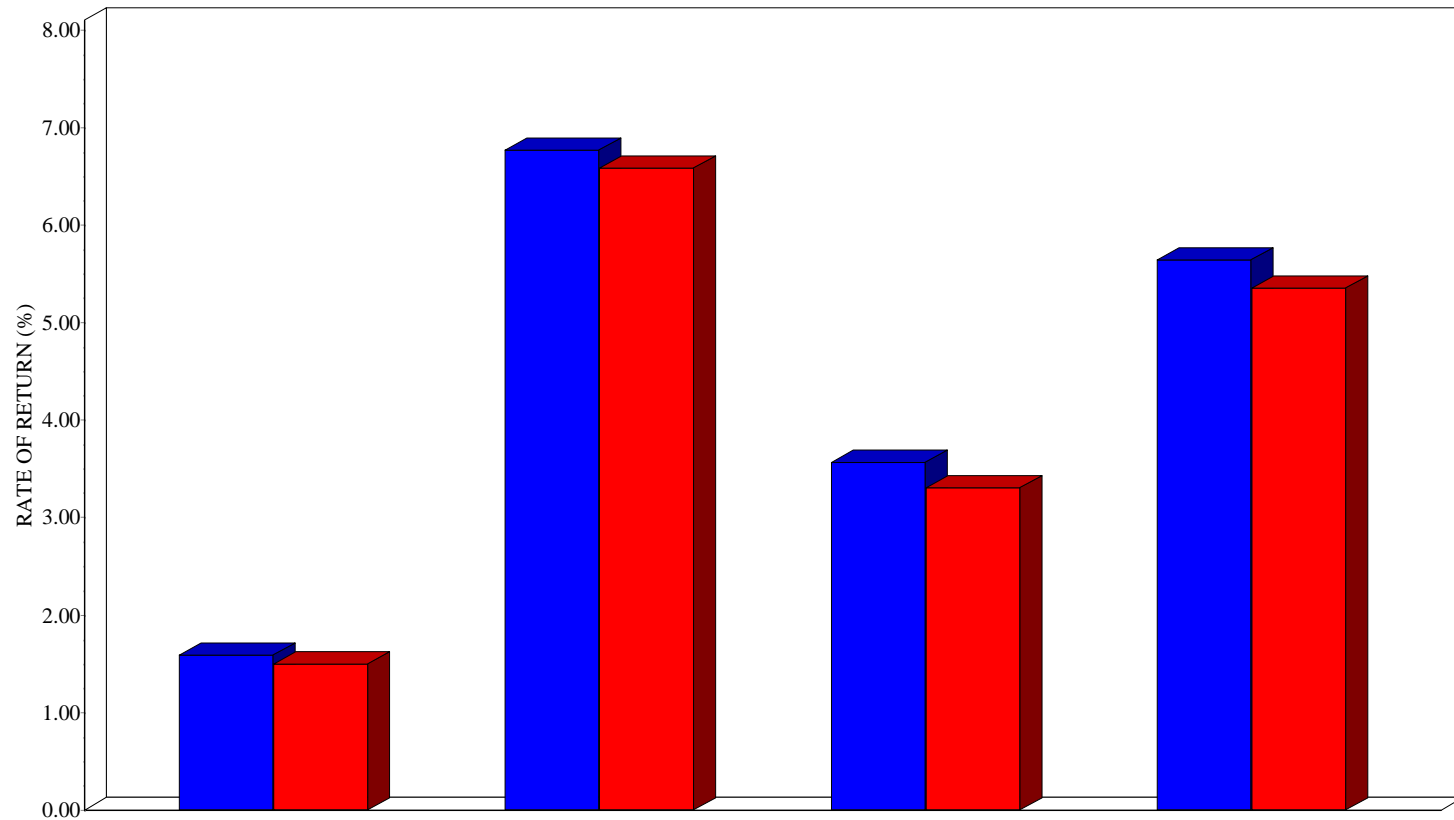
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL MONEY MKT	1.19	4.76	3.06	2.22
90 DAY U.S. T-BILL	1.25	5.01	3.55	2.60

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL MONEY MARKET
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



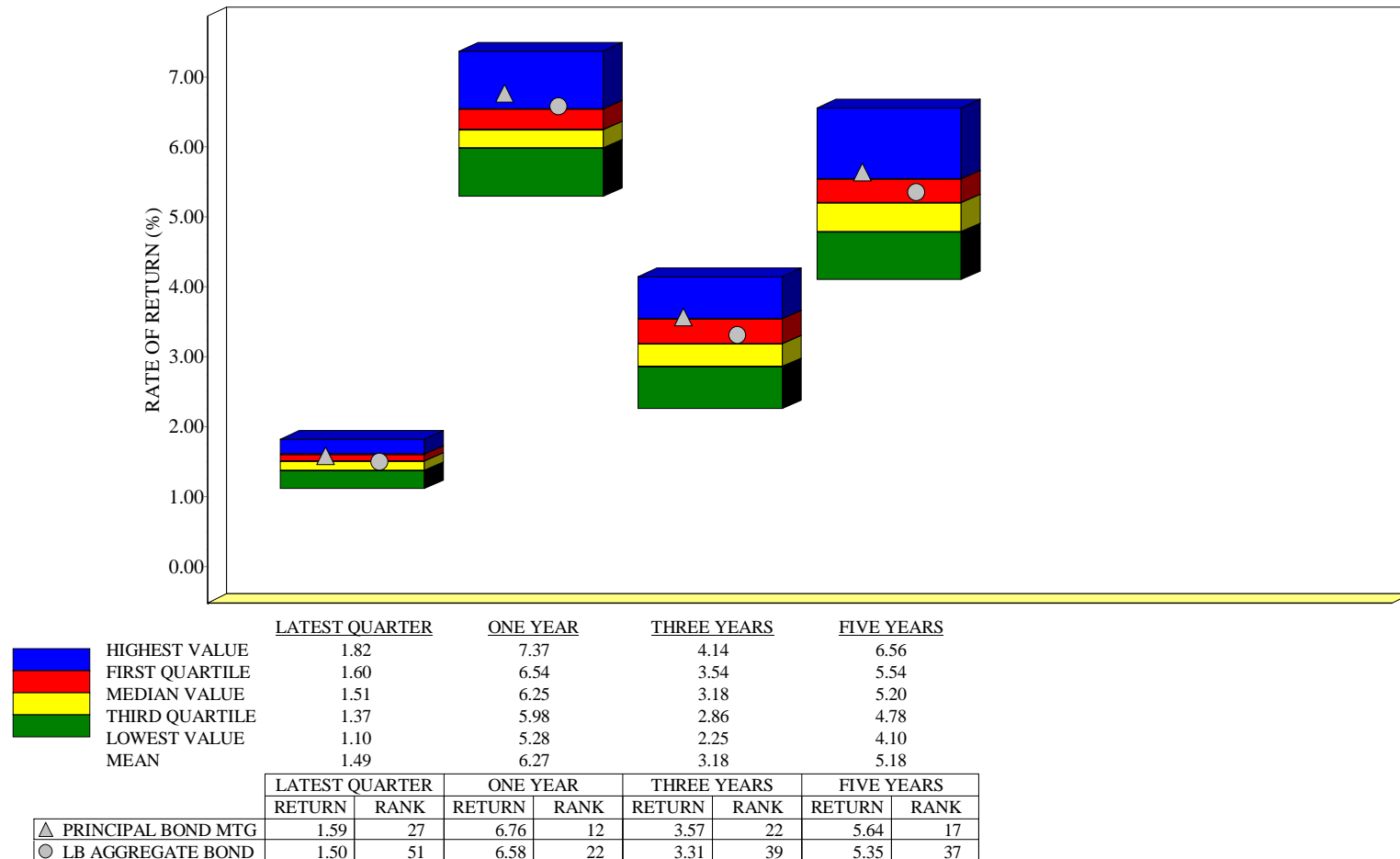
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	2.22	0.78	N/A	N/A	N/A
● 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL BOND AND MORTGAGE
TIME-WEIGHTED RETURNS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



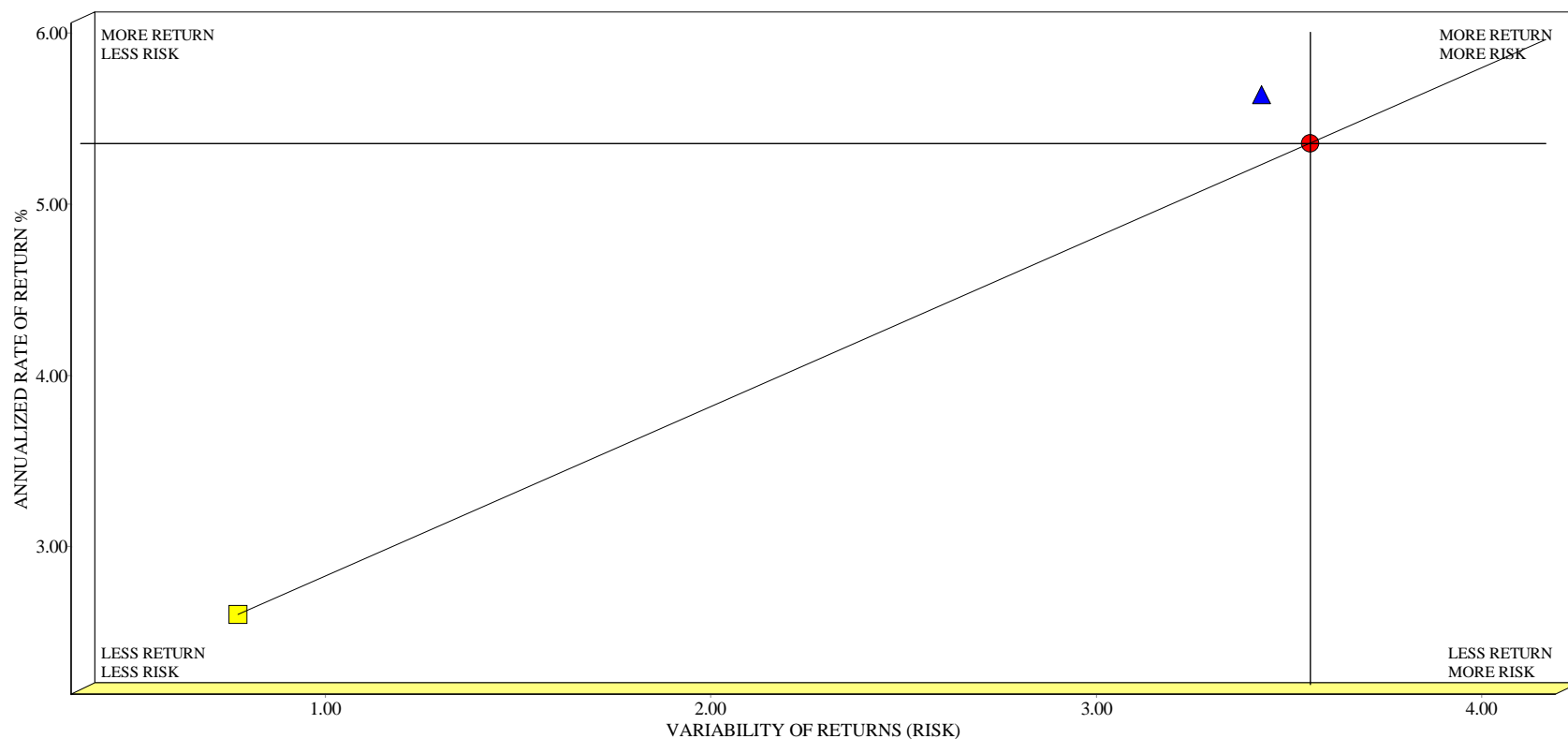
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL BOND MTG	1.59	6.76	3.57	5.64
LB AGGREGATE BOND	1.50	6.58	3.31	5.35

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST CORE FIXED INCOME MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



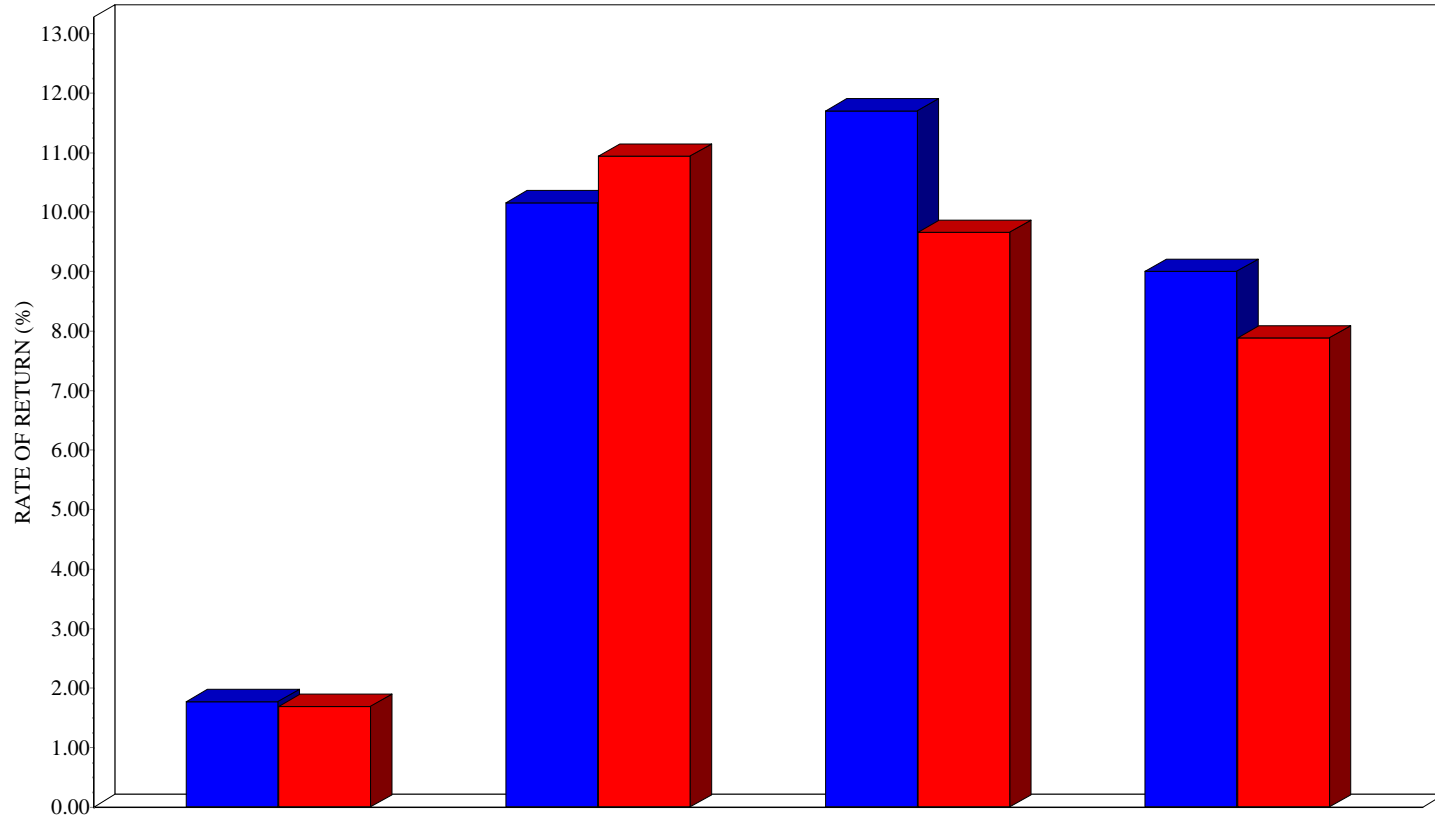
Source: Morningstar, Inc.

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL BOND AND MORTGAGE
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



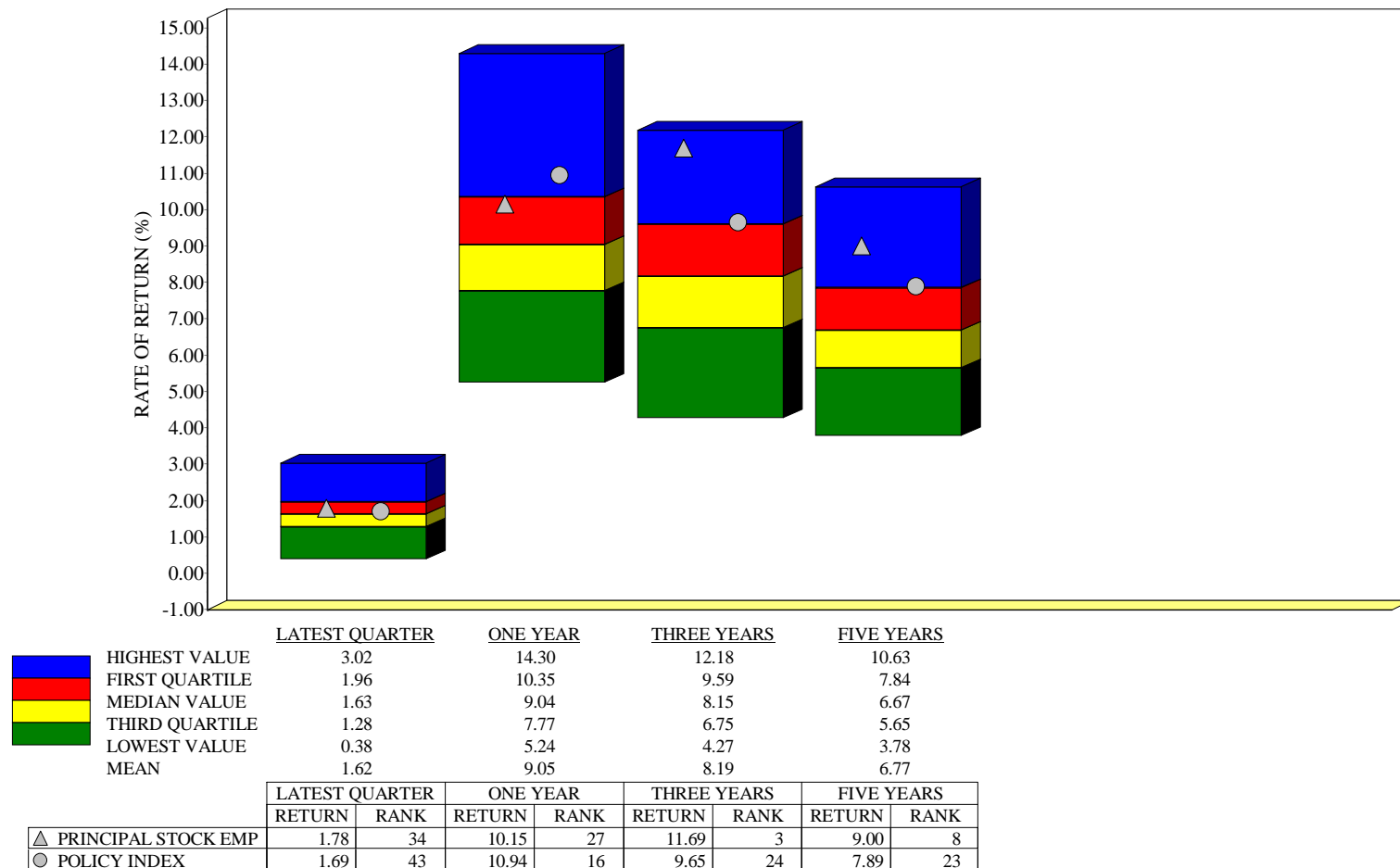
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	5.64	3.43	0.97	0.36	99.20
● LB AGGREGATE BOND	5.35	3.55	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL STOCK EMPHASIS BALANCED
TIME-WEIGHTED RETURNS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



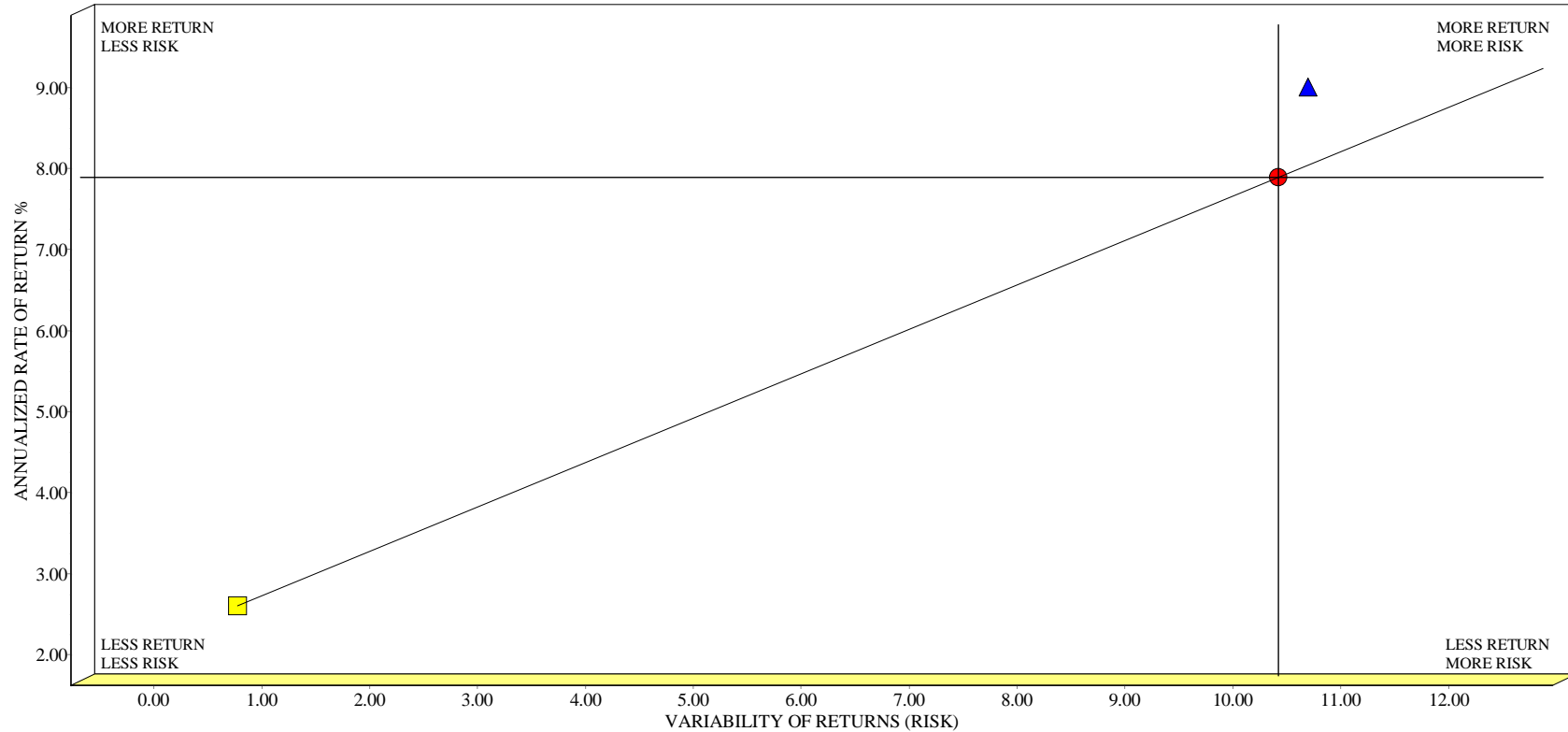
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL STOCK EMP	1.78	10.15	11.69	9.00
POLICY INDEX	1.69	10.94	9.65	7.89

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST BALANCED MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



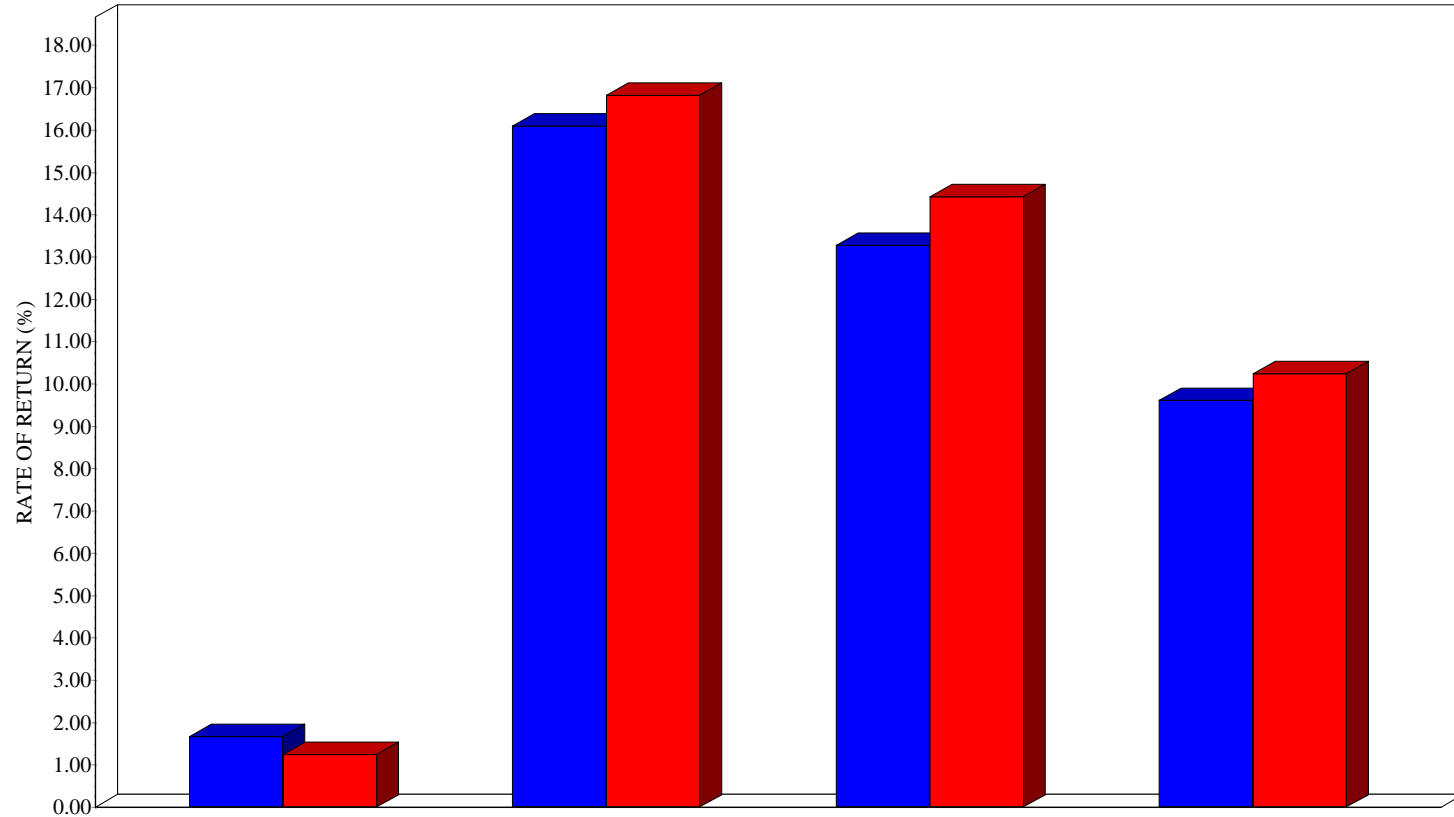
Source: Morningstar, Inc.

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL STOCK EMPHASIS BALANCED
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



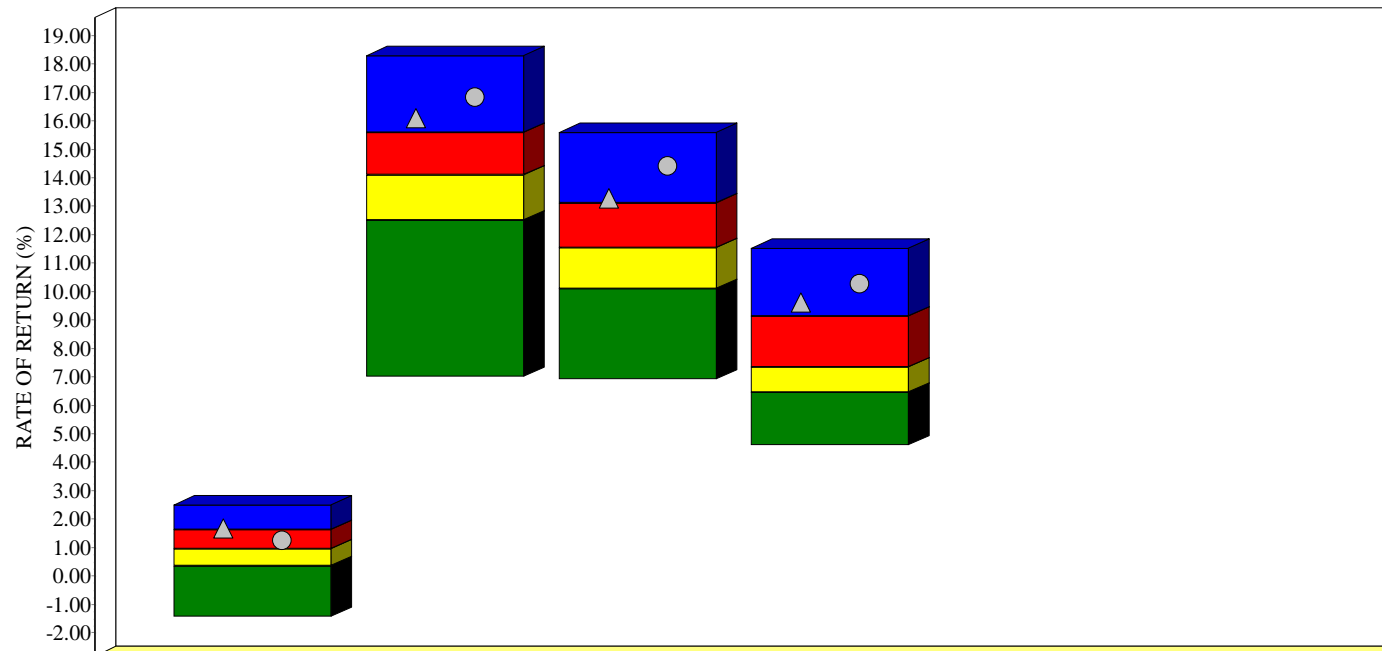
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	9.00	10.69	1.01	1.04	96.67
● POLICY INDEX	7.89	10.42	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
VANGUARD WINDSOR II/INV
TIME-WEIGHTED RETURNS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
VANGUARD WINDSOR	1.67	16.10	13.27	9.62
RUSSELL 1000 VALUE	1.24	16.83	14.42	10.25

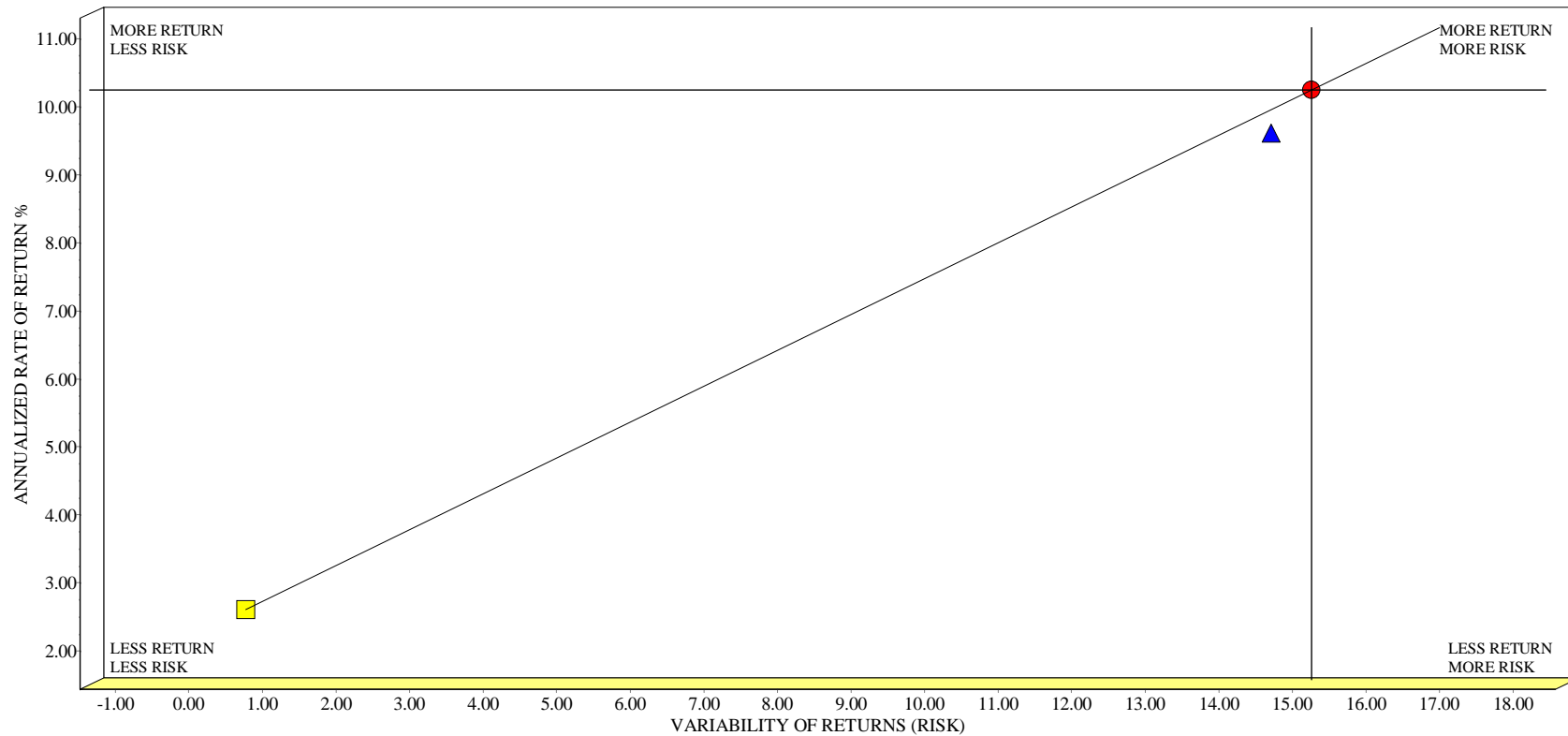
**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. LARGE CAP VALUE MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



		<u>LATEST QUARTER</u>	<u>ONE YEAR</u>	<u>THREE YEARS</u>	<u>FIVE YEARS</u>
■	HIGHEST VALUE	2.50	18.30	15.58	11.52
■	FIRST QUARTILE	1.63	15.59	13.11	9.13
■	MEDIAN VALUE	0.94	14.09	11.54	7.33
■	THIRD QUARTILE	0.34	12.50	10.10	6.45
	LOWEST VALUE	-1.44	6.99	6.91	4.59
	MEAN	0.85	13.96	11.56	7.63

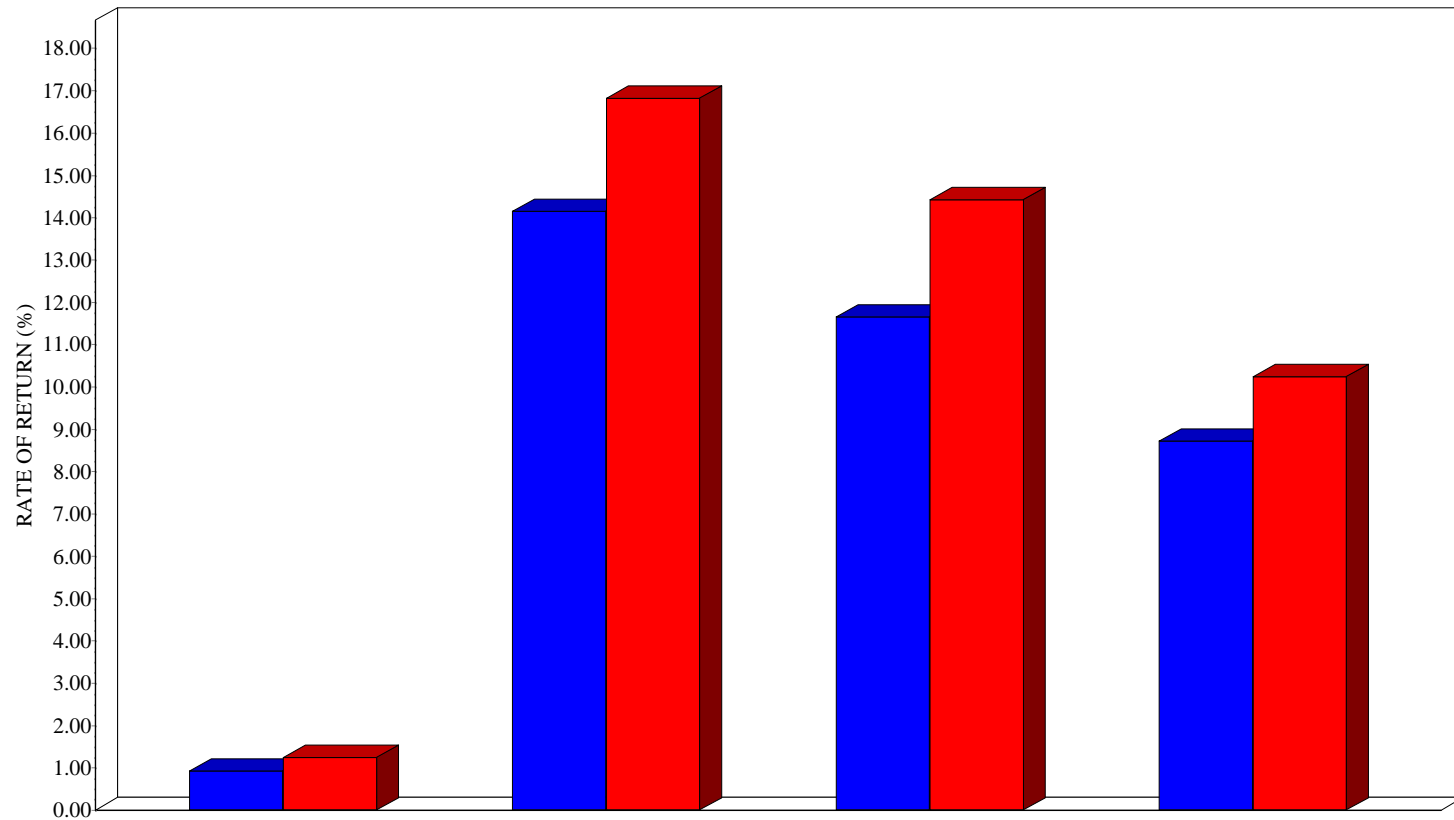
	<u>LATEST QUARTER</u>		<u>ONE YEAR</u>		<u>THREE YEARS</u>		<u>FIVE YEARS</u>	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
△ VANGUARD WINDSOR	1.67	24	16.10	19	13.27	19	9.62	16
● RUSSELL 1000 VALUE	1.24	35	16.83	12	14.42	6	10.25	5

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
VANGUARD WINDSOR II/INV
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



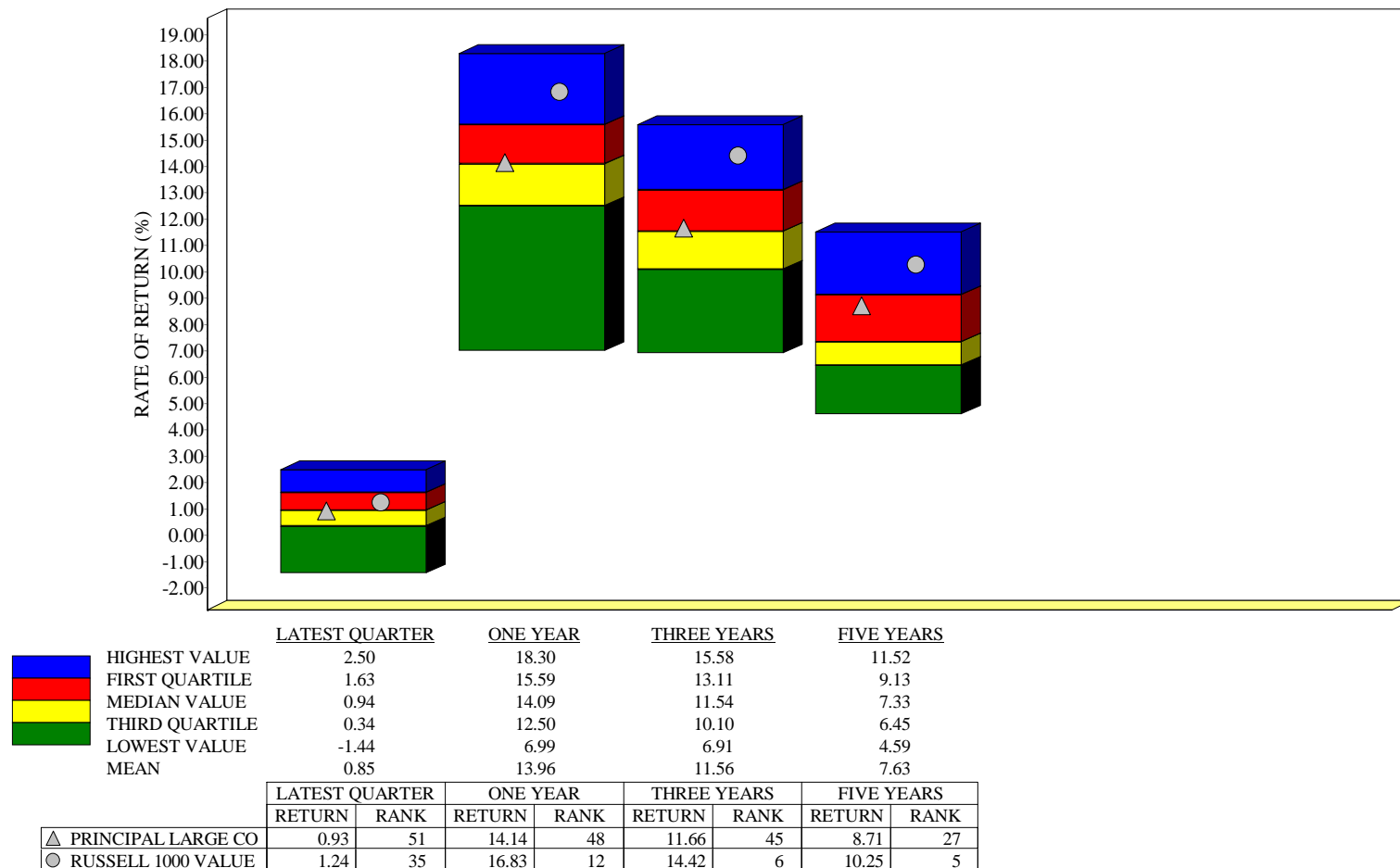
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	9.62	14.71	0.95	-0.27	96.97
● RUSSELL 1000 VALUE	10.25	15.26	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
 PRINCIPAL LARGE COMPANY VALUE
 TIME-WEIGHTED RETURNS
 MARCH 31, 2002 THROUGH MARCH 31, 2007**



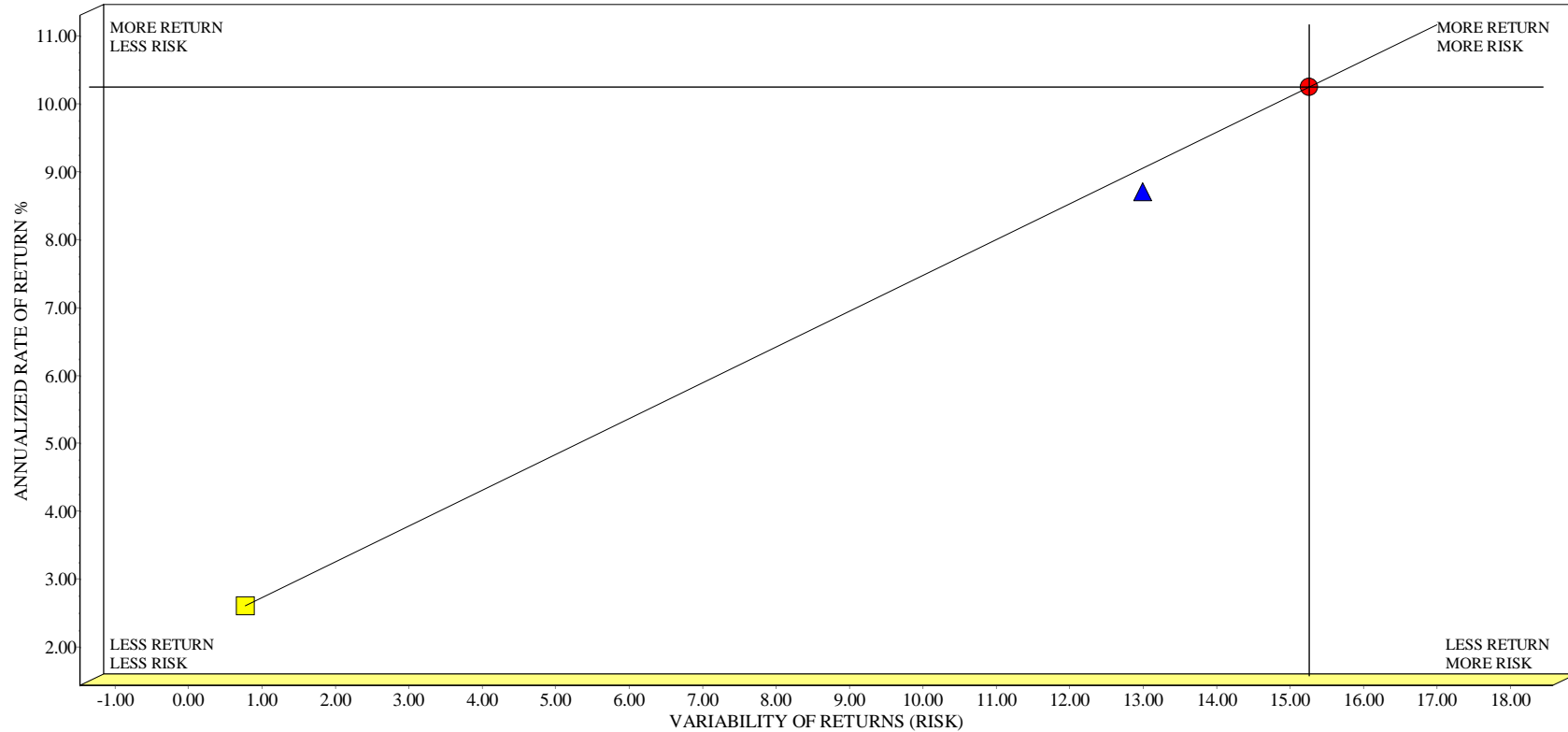
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL LARGE CO	0.93	14.14	11.66	8.71
RUSSELL 1000 VALUE	1.24	16.83	14.42	10.25

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. LARGE CAP VALUE MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



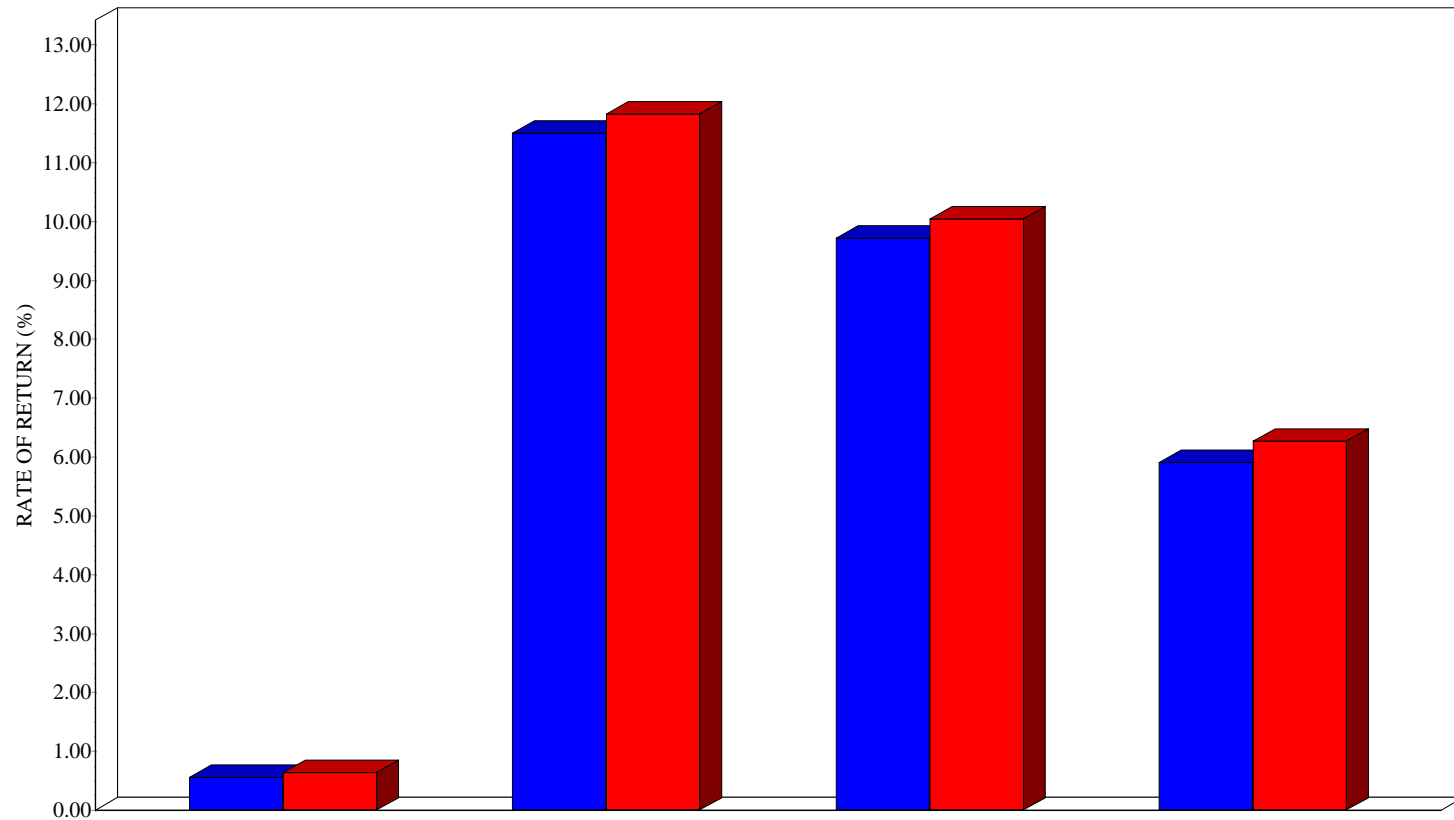
Source: Morningstar, Inc.

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL LARGE COMPANY VALUE
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



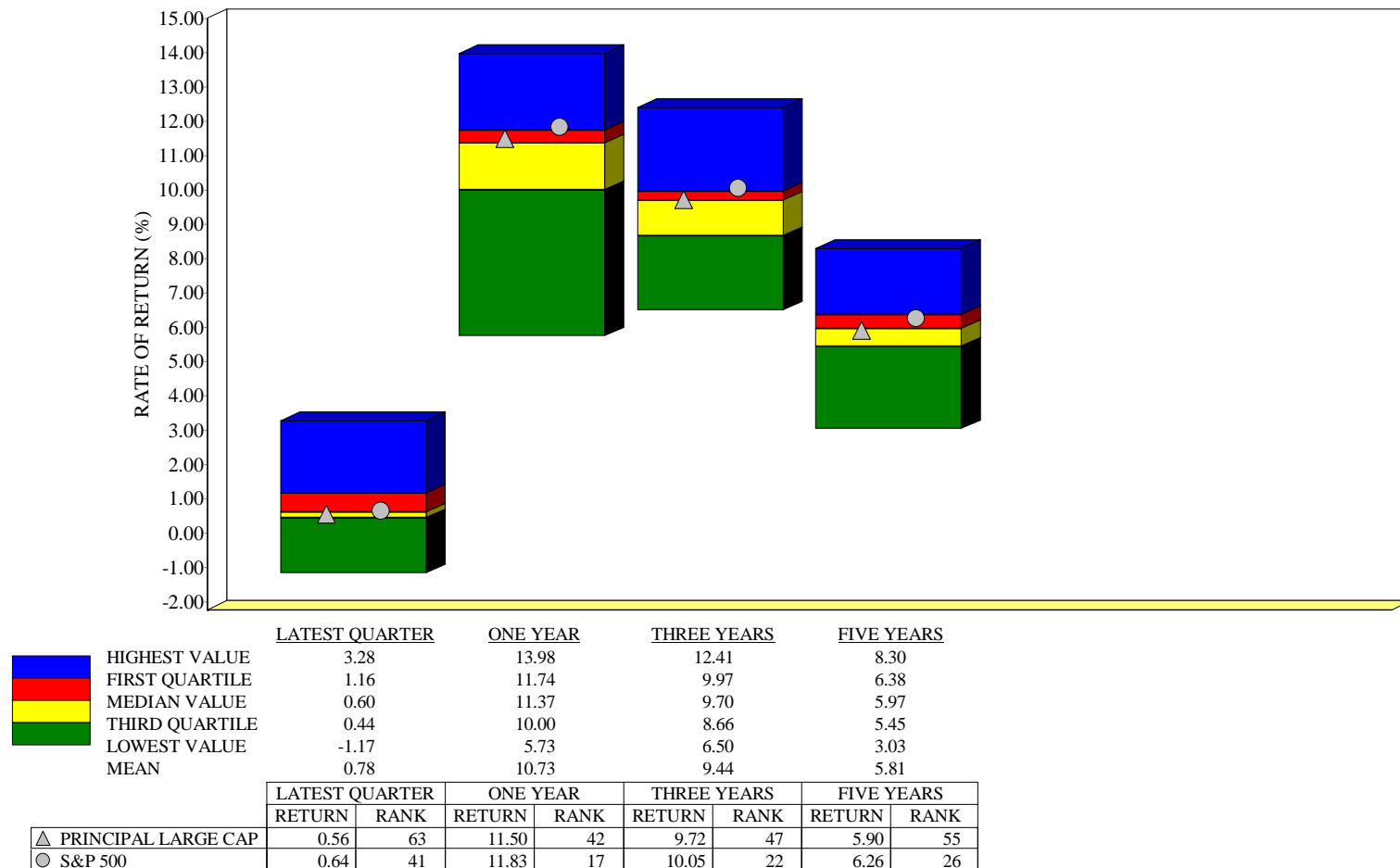
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	8.71	12.99	0.84	-0.42	97.77
● RUSSELL 1000 VALUE	10.25	15.26	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL LARGE CAP STOCK INDEX
TIME-WEIGHTED RETURNS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



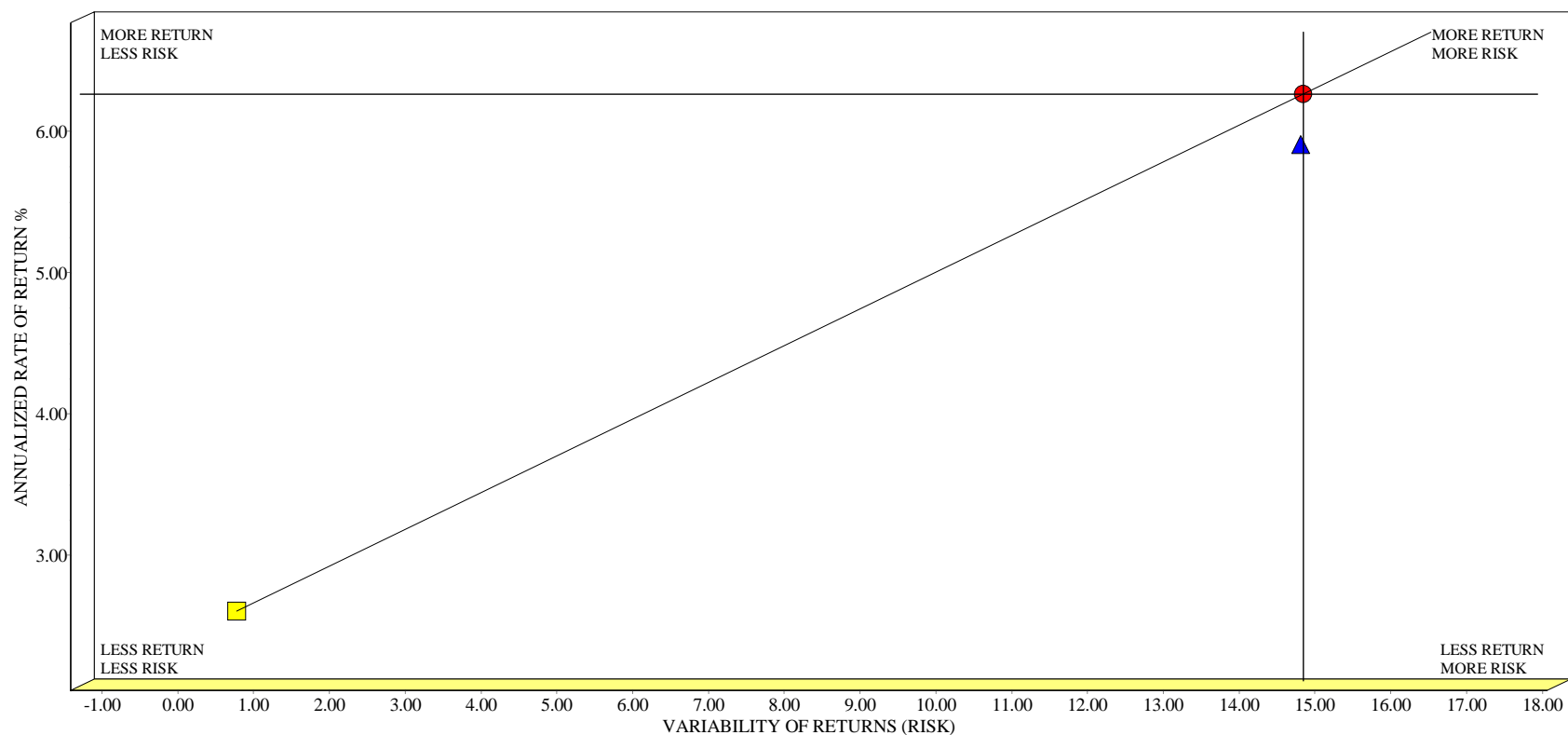
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL LARGE CAP	0.56	11.50	9.72	5.90
S&P 500	0.64	11.83	10.05	6.26

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S. A. LARGE CAP BLEND MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



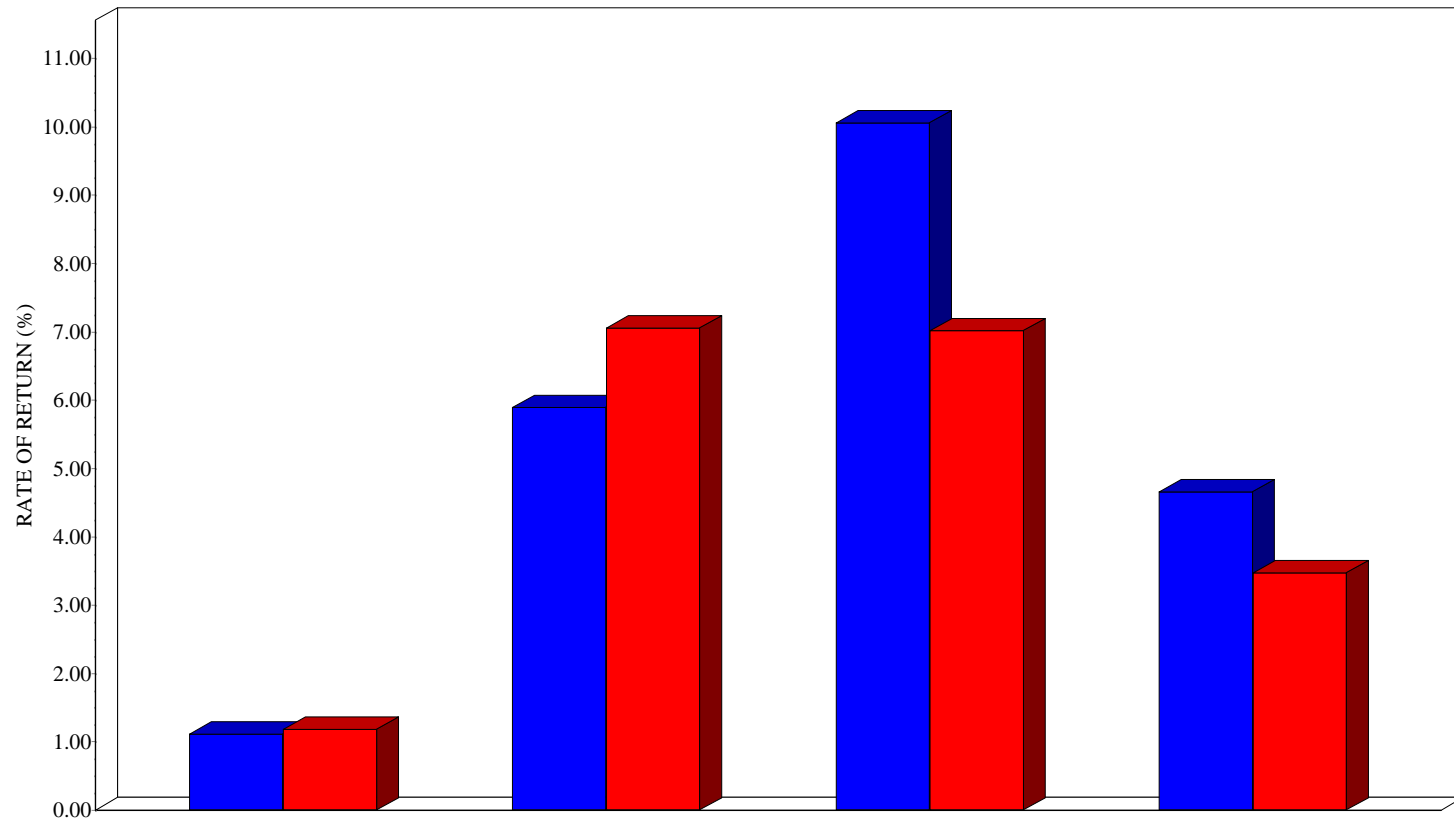
Source: Morningstar, Inc.

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL LARGE CAP STOCK INDEX
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



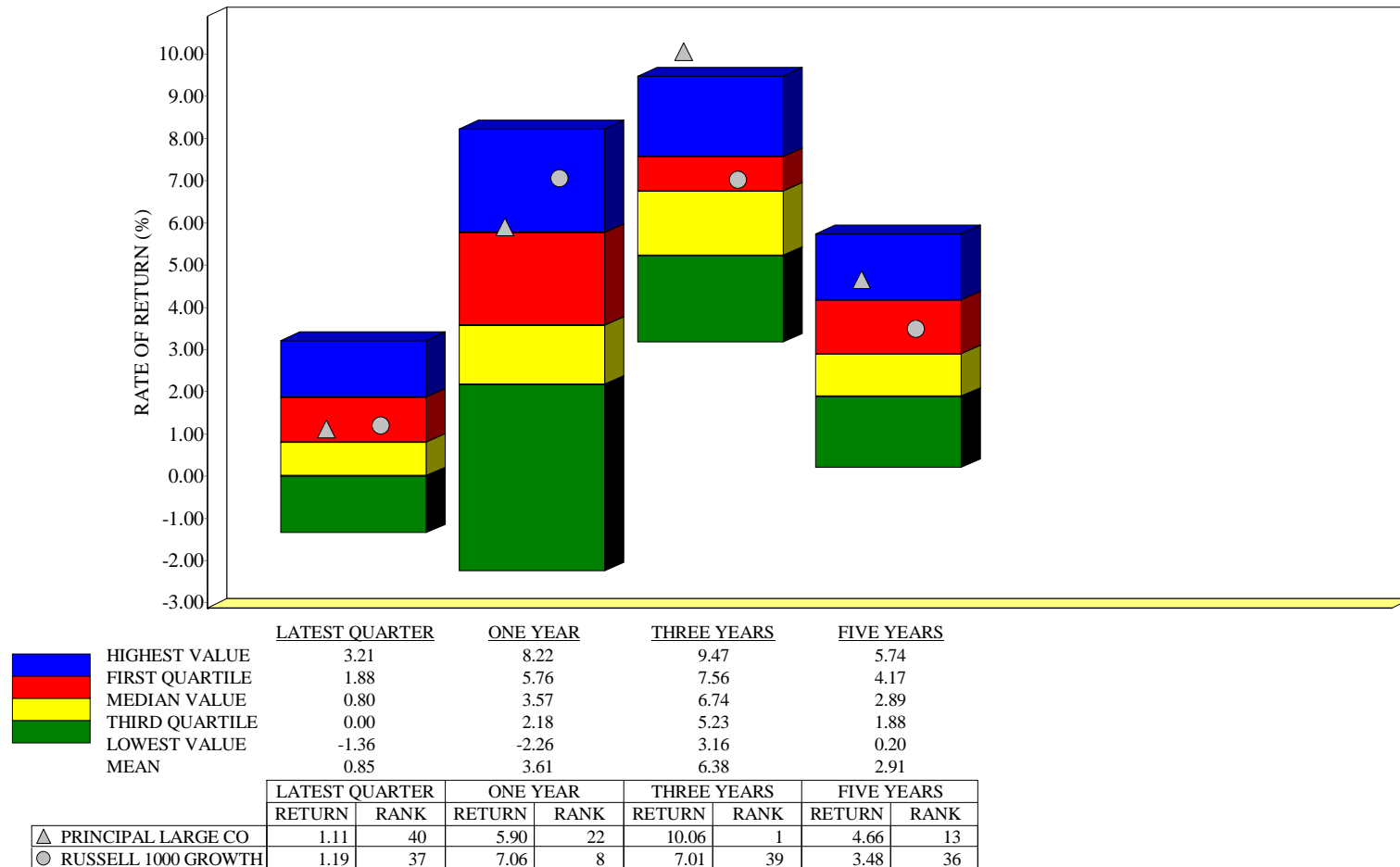
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	5.90	14.81	1.00	-0.34	100.00
● S&P 500	6.26	14.84	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL LARGE COMPANY GROWTH
TIME-WEIGHTED RETURNS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



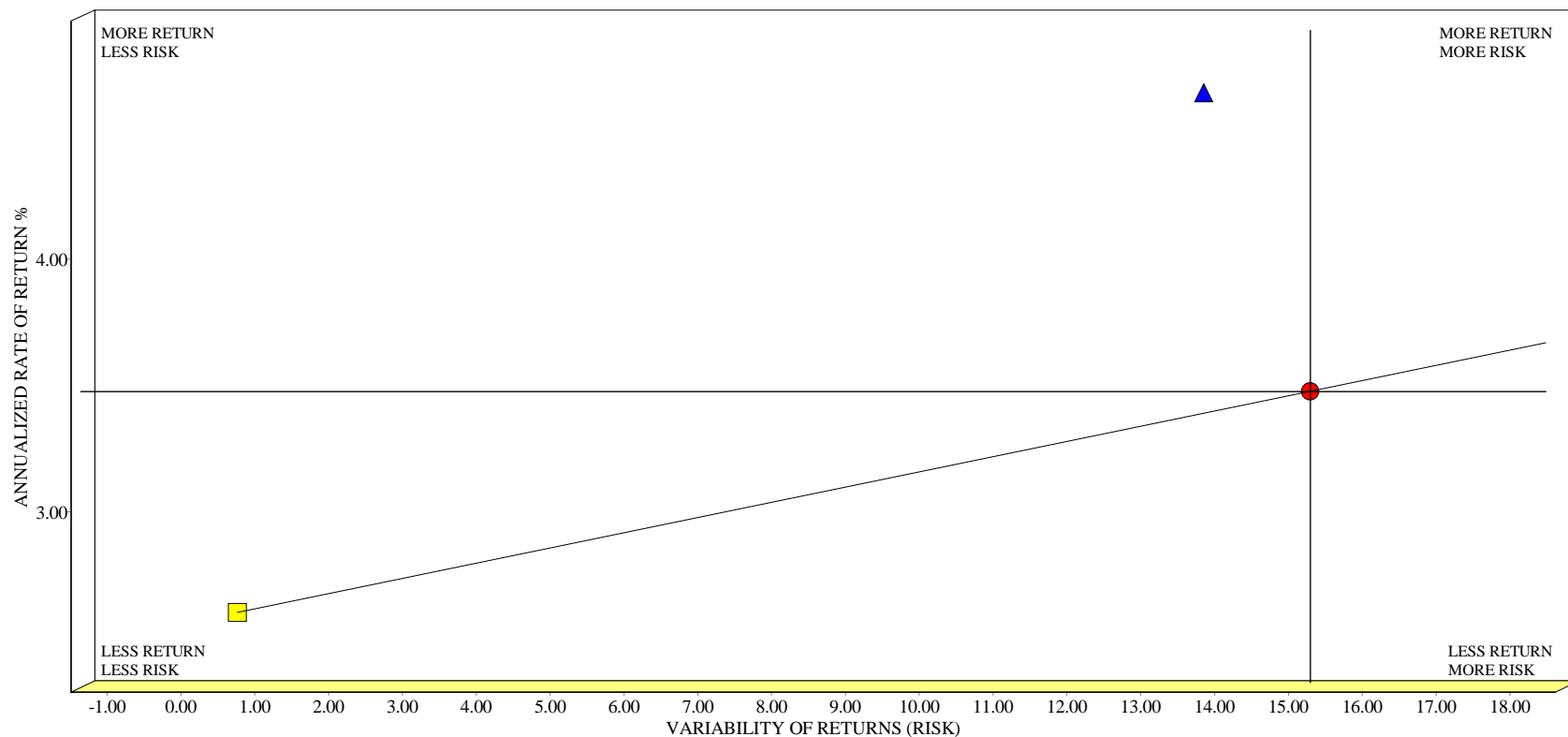
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL LARGE CO	1.11	5.90	10.06	4.66
RUSSELL 1000 GROWTH	1.19	7.06	7.01	3.48

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. LARGE CAP GROWTH MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



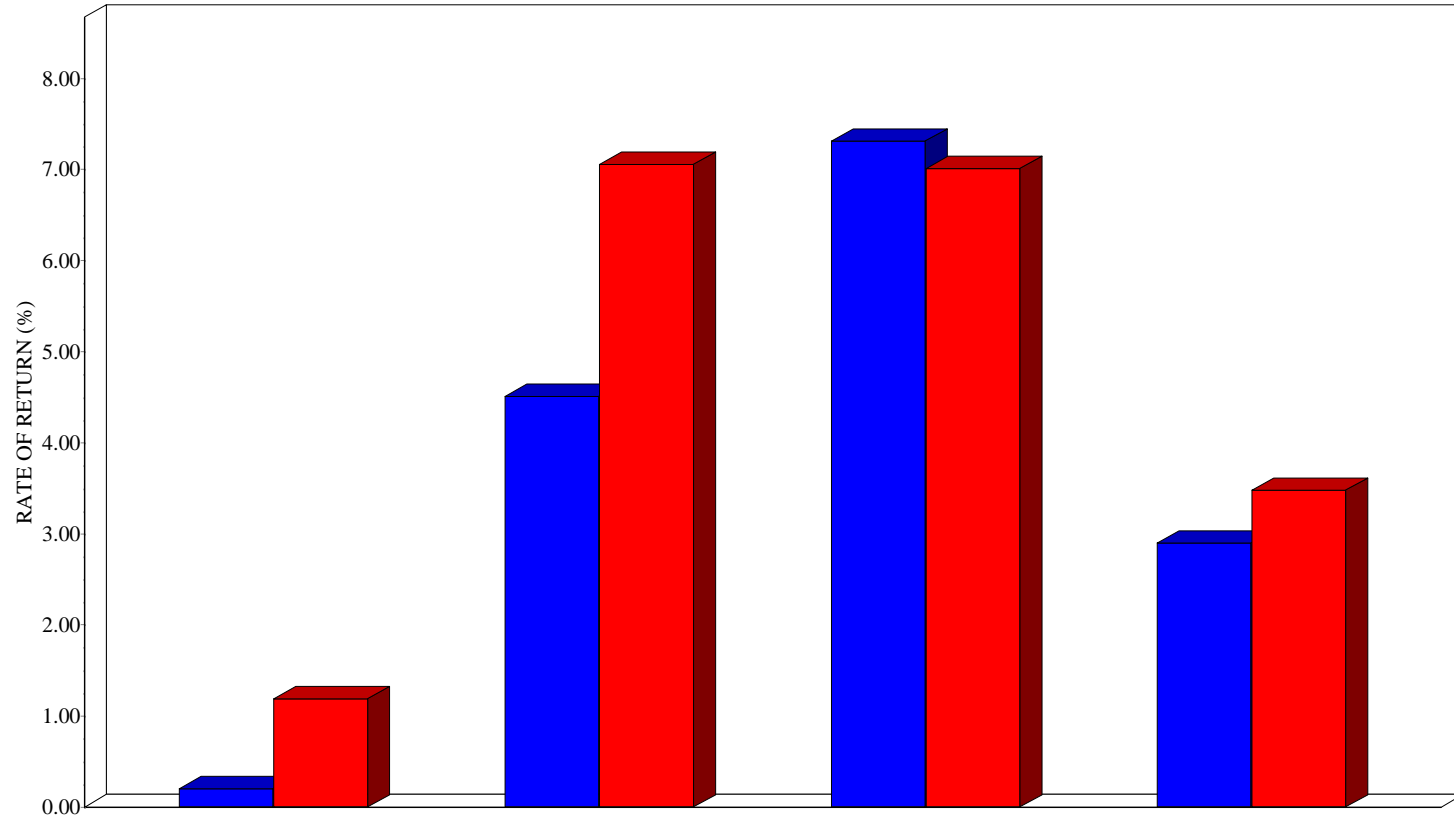
Source: Morningstar, Inc.

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL LARGE COMPANY GROWTH
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



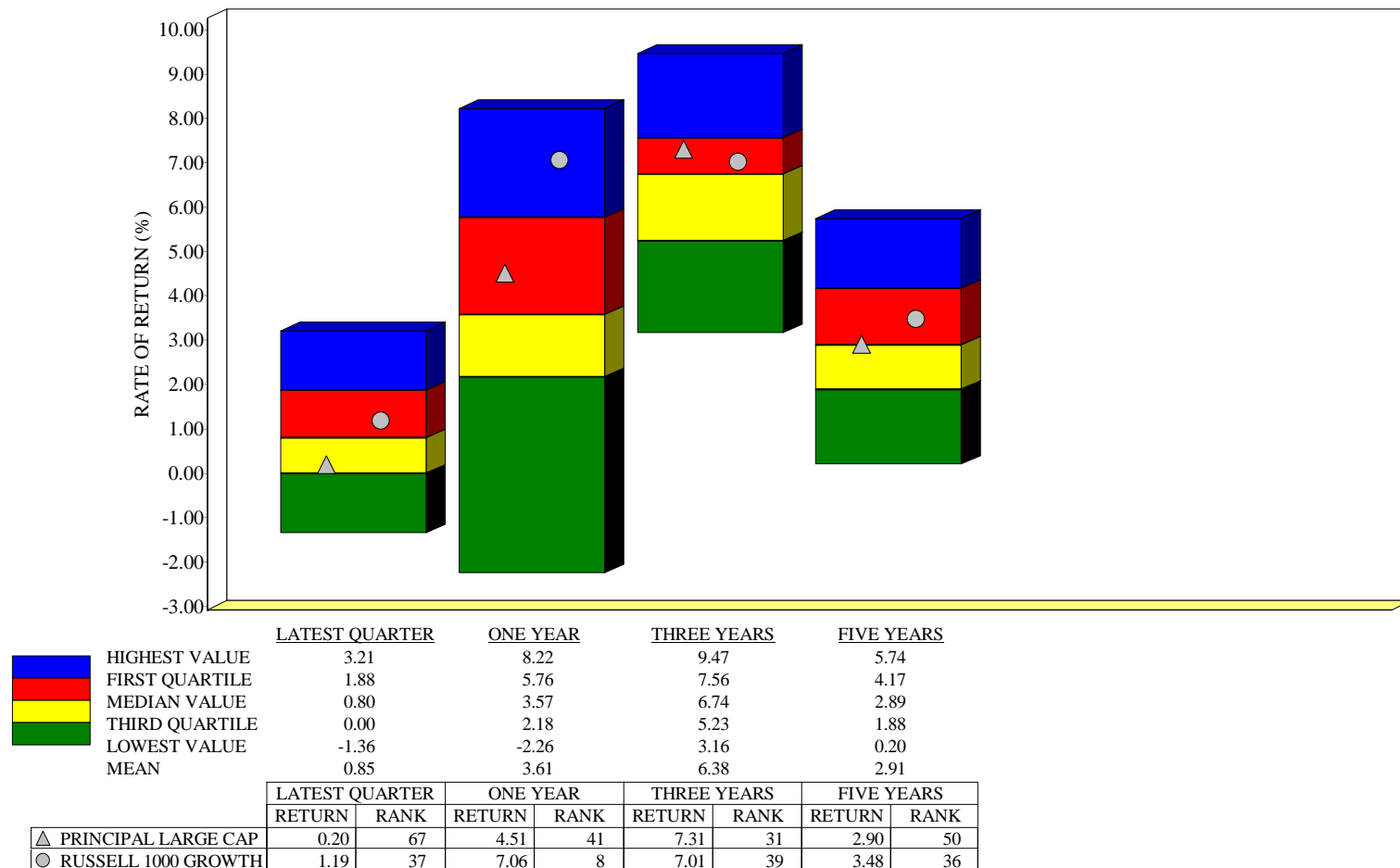
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	4.66	13.85	0.87	1.20	91.92
● RUSSELL 1000 GROWTH	3.48	15.29	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
 PRINCIPAL PARTNERS LARGE CAP GROWTH I
 TIME-WEIGHTED RETURNS
 MARCH 31, 2002 THROUGH MARCH 31, 2007**



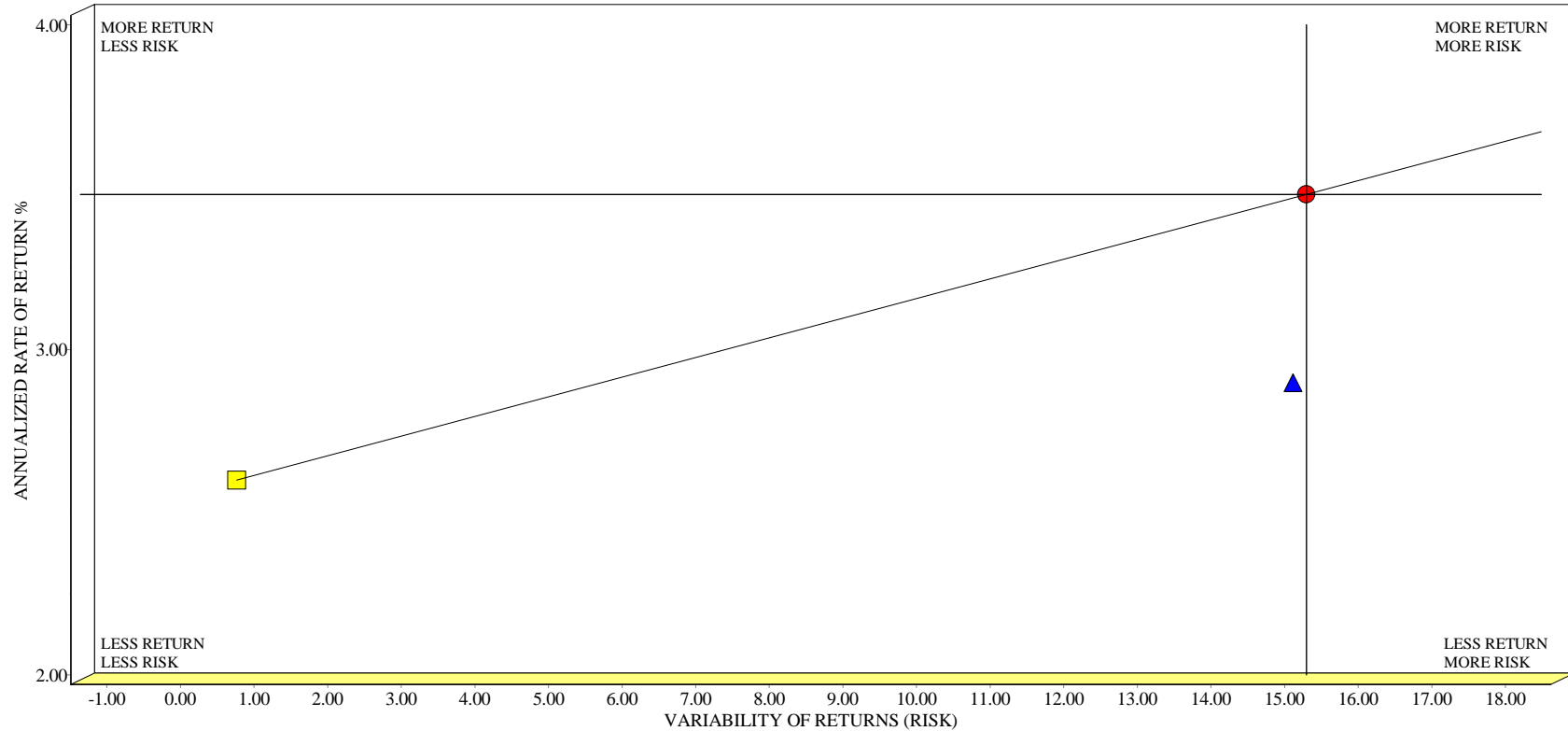
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL LARGE CAP	0.20	4.51	7.31	2.90
RUSSELL 1000 GROWTH	1.19	7.06	7.01	3.48

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. LARGE CAP GROWTH MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



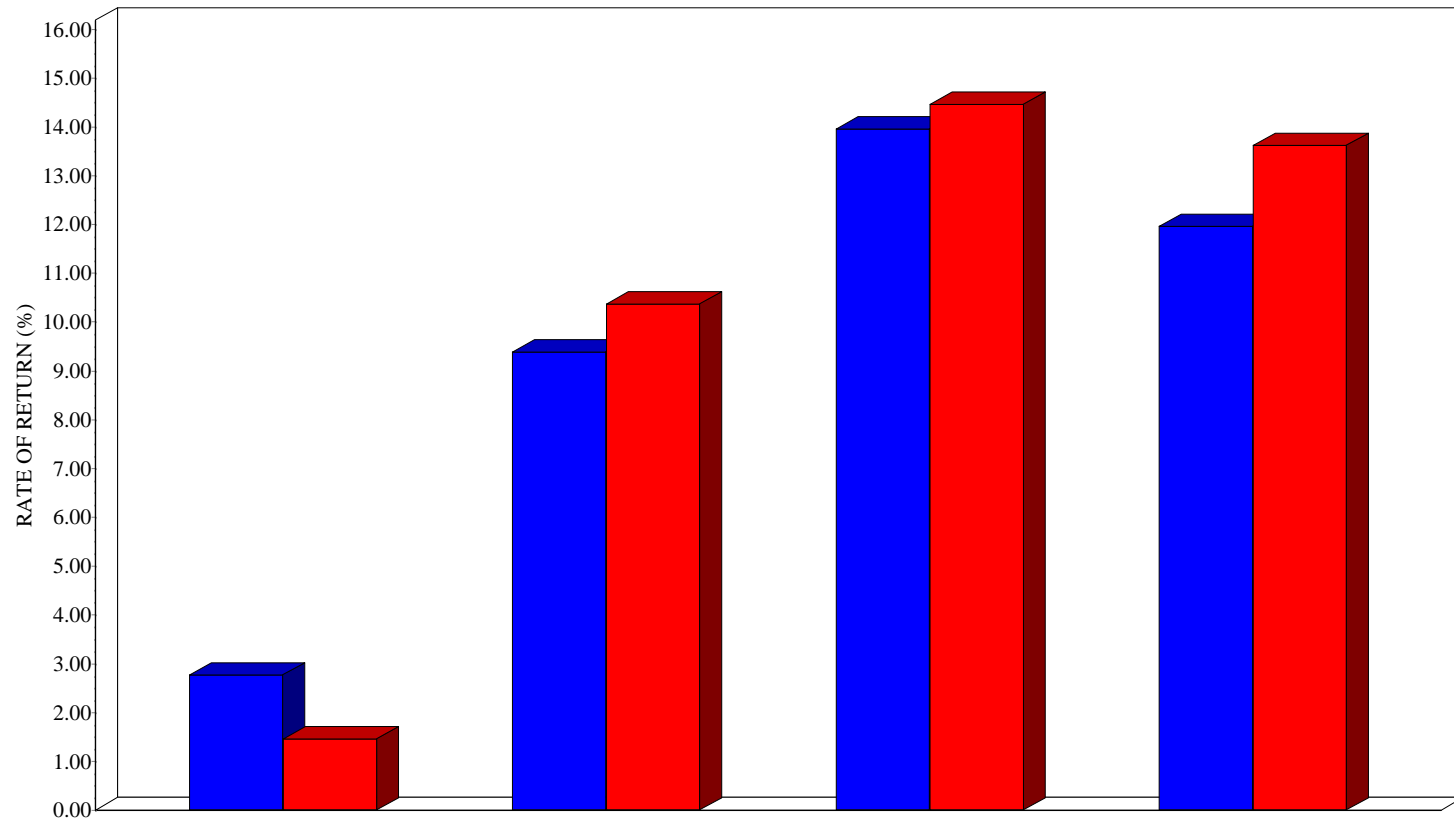
Source: Morningstar, Inc.

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL PARTNERS LARGE CAP GROWTH I
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



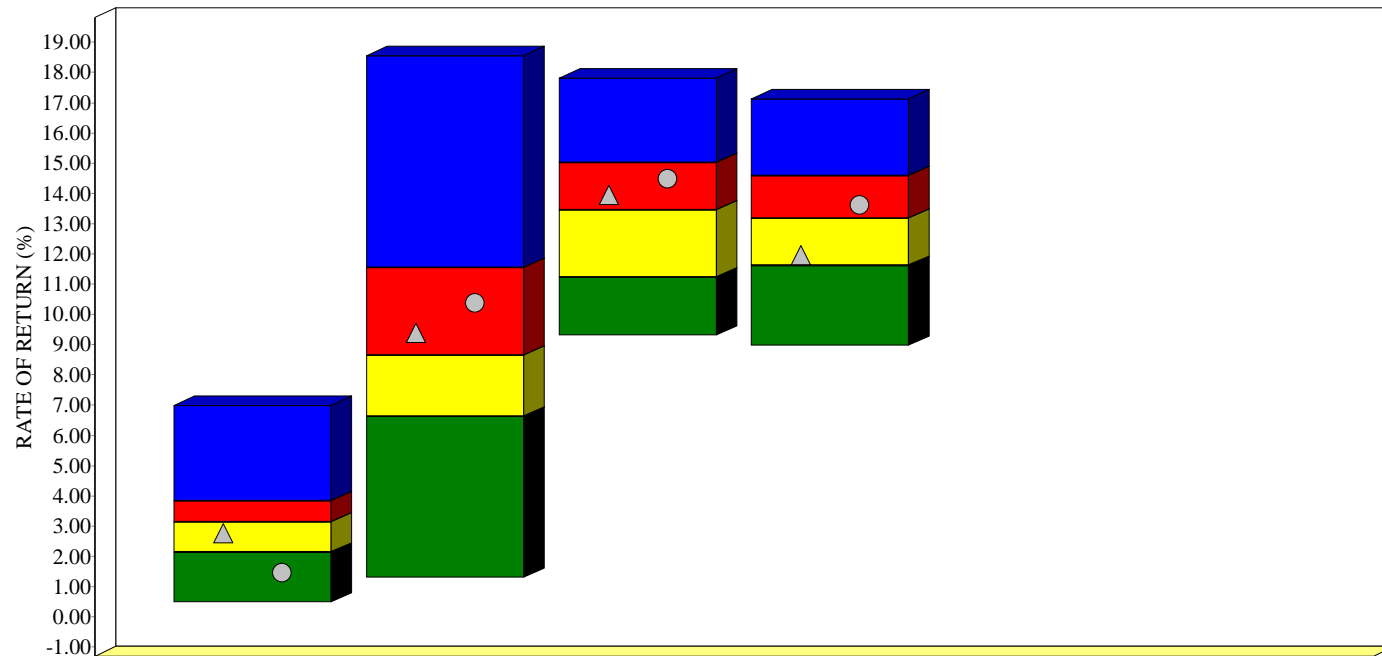
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	2.90	15.11	0.96	-0.52	94.40
● RUSSELL 1000 GROWTH	3.48	15.29	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
AMERICAN CENTURY SMALL CAP VALUE/INV
TIME-WEIGHTED RETURNS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
AMERICAN CENTURY	2.77	9.39	13.96	11.96
RUSSELL 2000 VALUE	1.46	10.38	14.47	13.61

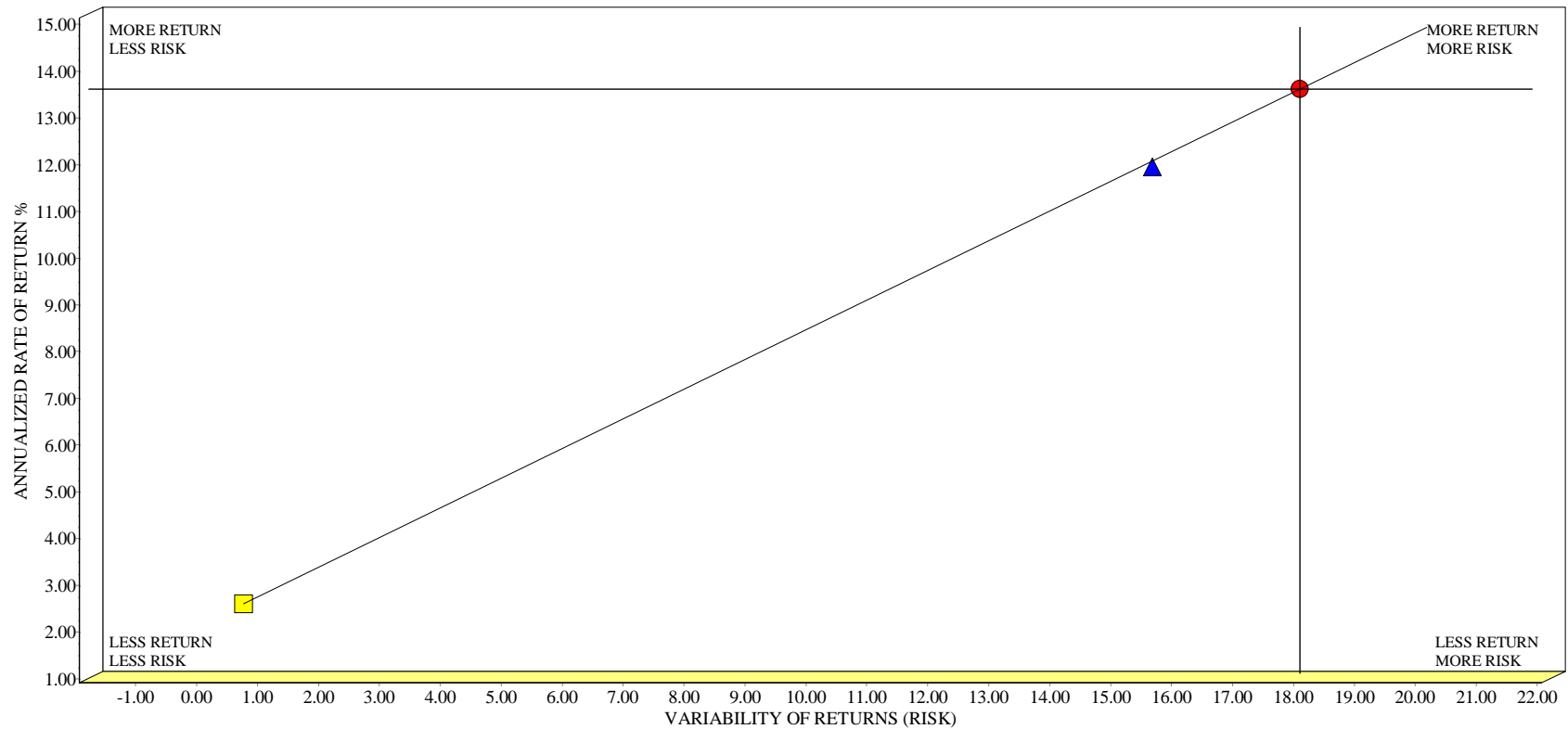
**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. SMALL CAP VALUE MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



	<u>LATEST QUARTER</u>		<u>ONE YEAR</u>		<u>THREE YEARS</u>		<u>FIVE YEARS</u>	
■ HIGHEST VALUE		6.98		18.56		17.81		17.13
■ FIRST QUARTILE		3.84		11.56		15.01		14.58
■ MEDIAN VALUE		3.13		8.65		13.45		13.17
■ THIRD QUARTILE		2.13		6.62		11.23		11.62
■ LOWEST VALUE		0.49		1.29		9.30		8.95
MEAN		3.05		8.75		13.25		13.05

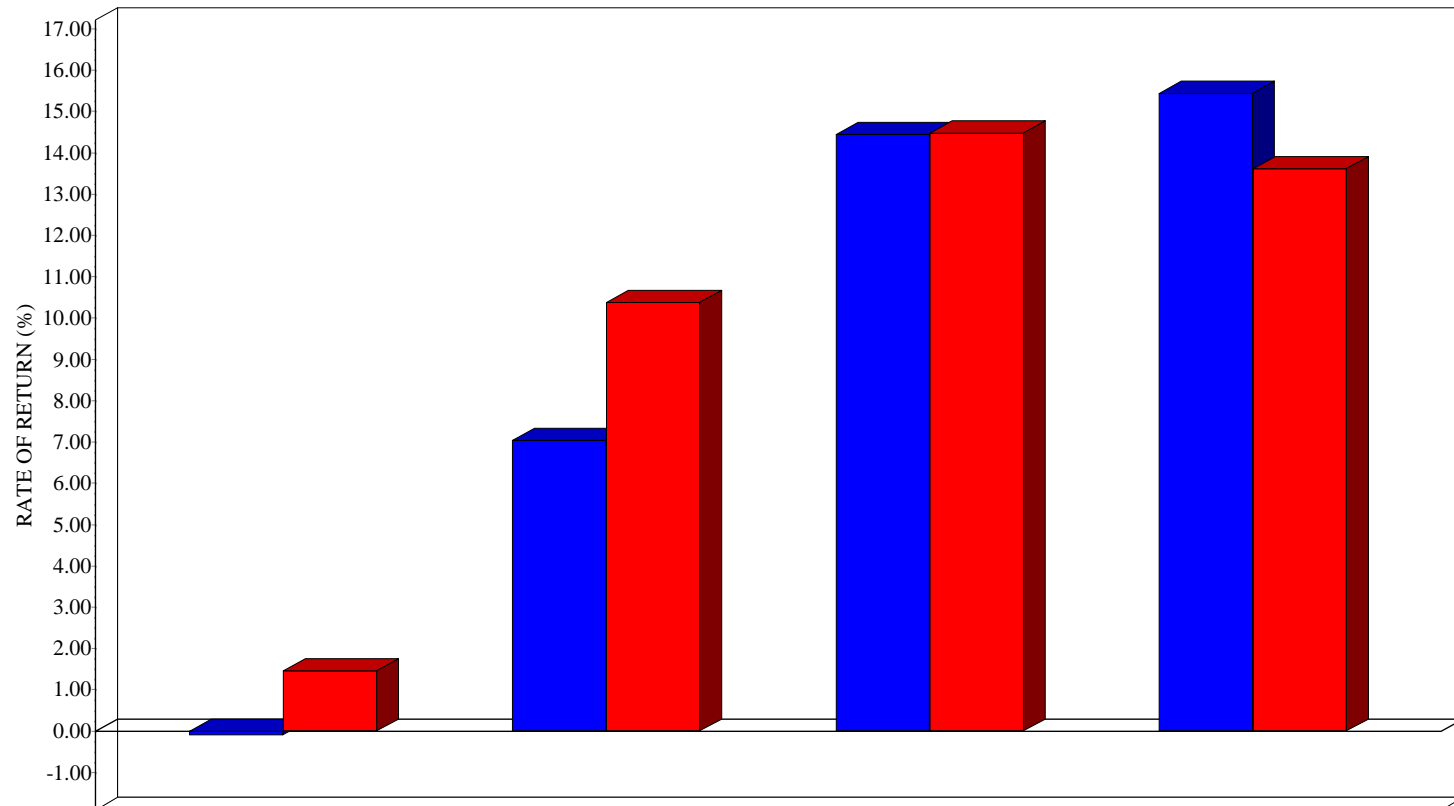
	<u>LATEST QUARTER</u>		<u>ONE YEAR</u>		<u>THREE YEARS</u>		<u>FIVE YEARS</u>	
▲ AMERICAN CENTURY	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
	2.77	58	9.39	38	13.96	38	11.96	66
● RUSSELL 2000 VALUE	1.46	85	10.38	25	14.47	30	13.61	38

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
AMERICAN CENTURY SMALL CAP VALUE/INV
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



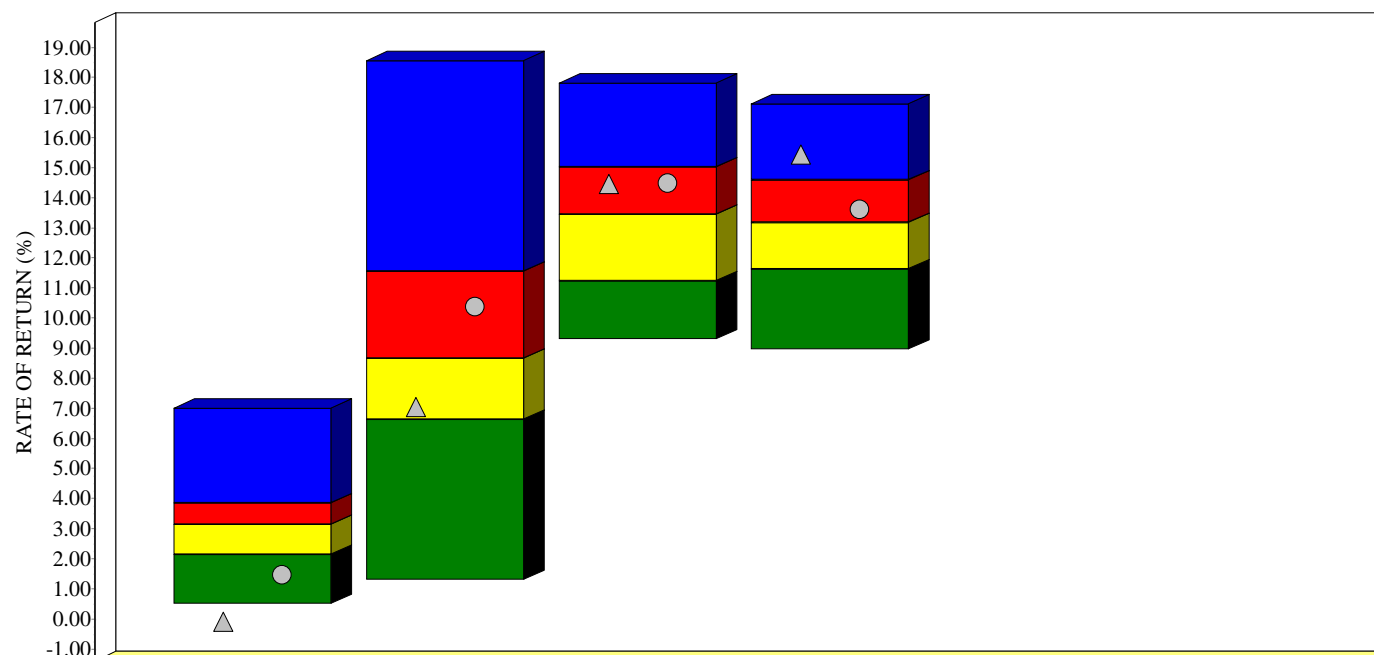
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	11.96	15.68	0.85	-0.08	95.68
● RUSSELL 2000 VALUE	13.61	18.10	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
 PRINCIPAL SMALL COMPANY VALUE
 TIME-WEIGHTED RETURNS
 MARCH 31, 2002 THROUGH MARCH 31, 2007**



	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL SMALL CO	-0.10	7.03	14.45	15.44
RUSSELL 2000 VALUE	1.46	10.38	14.47	13.61

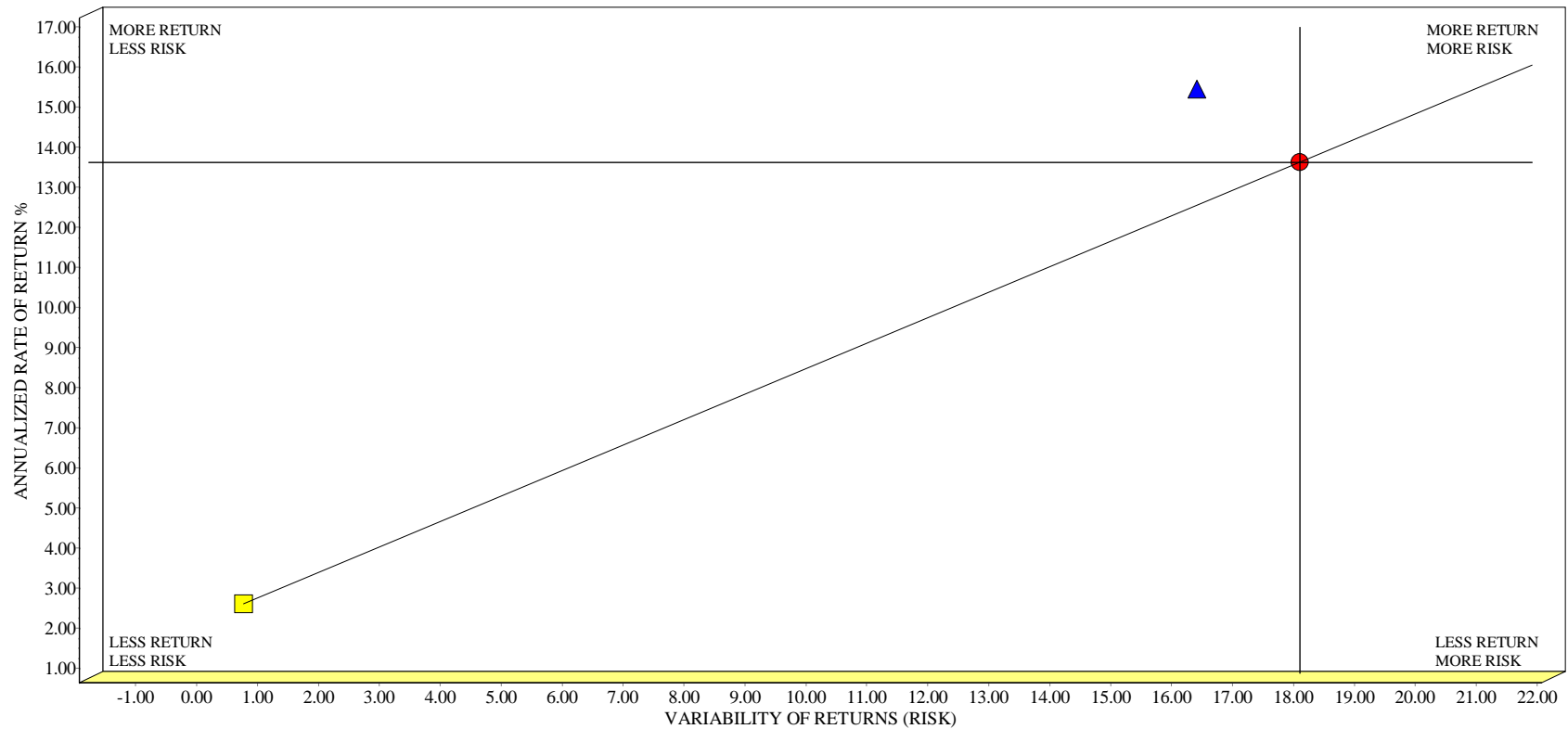
**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. SMALL CAP VALUE MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



	<u>LATEST QUARTER</u>	<u>ONE YEAR</u>	<u>THREE YEARS</u>	<u>FIVE YEARS</u>
■ HIGHEST VALUE	6.98	18.56	17.81	17.13
■ FIRST QUARTILE	3.84	11.56	15.01	14.58
■ MEDIAN VALUE	3.13	8.65	13.45	13.17
■ THIRD QUARTILE	2.13	6.62	11.23	11.62
■ LOWEST VALUE	0.49	1.29	9.30	8.95
MEAN	3.05	8.75	13.25	13.05

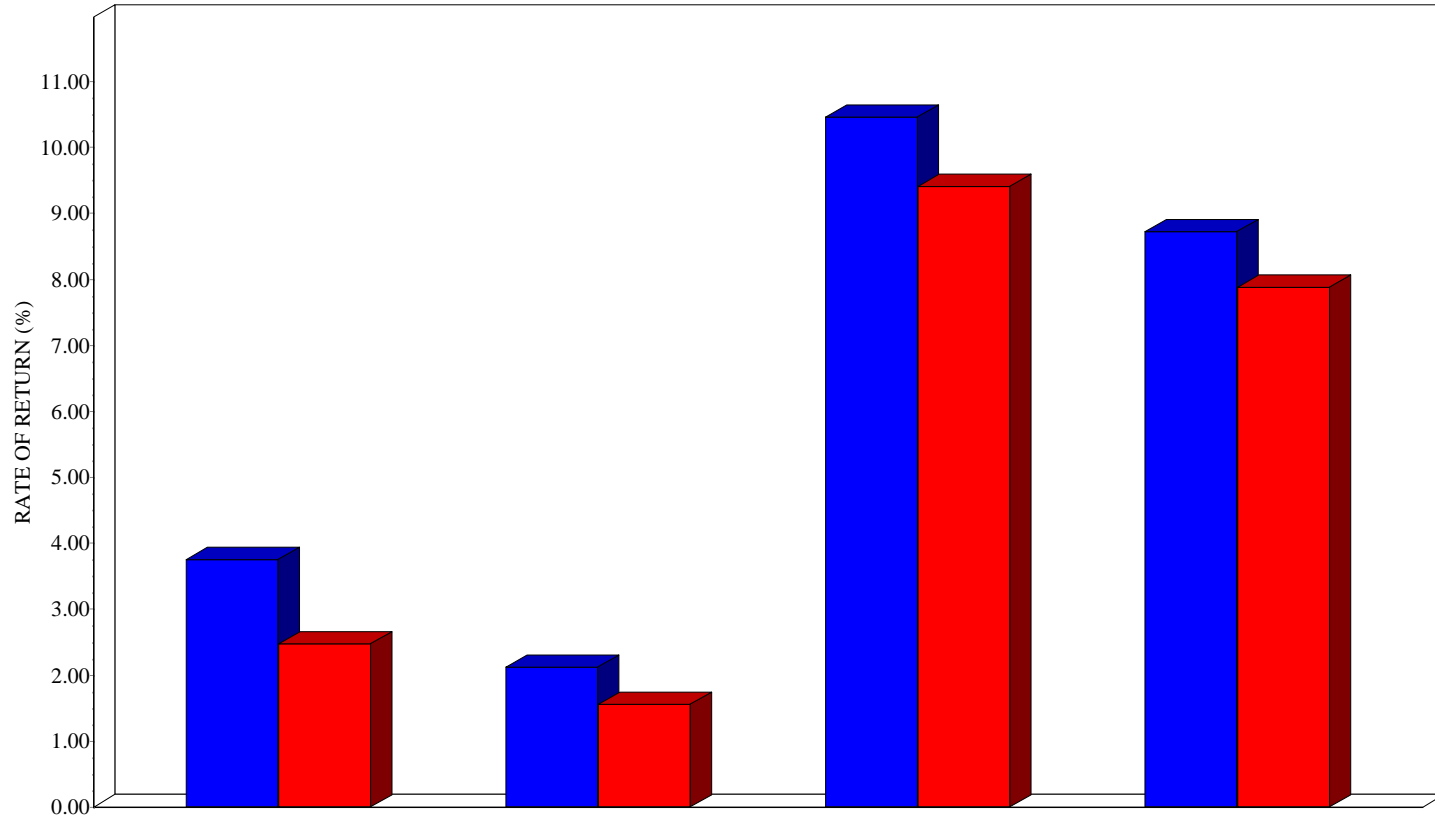
	<u>LATEST QUARTER</u>		<u>ONE YEAR</u>		<u>THREE YEARS</u>		<u>FIVE YEARS</u>	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL SMALL CO	-0.10	99	7.03	70	14.45	30	15.44	18
● RUSSELL 2000 VALUE	1.46	85	10.38	25	14.47	30	13.61	38

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL SMALL COMPANY VALUE
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



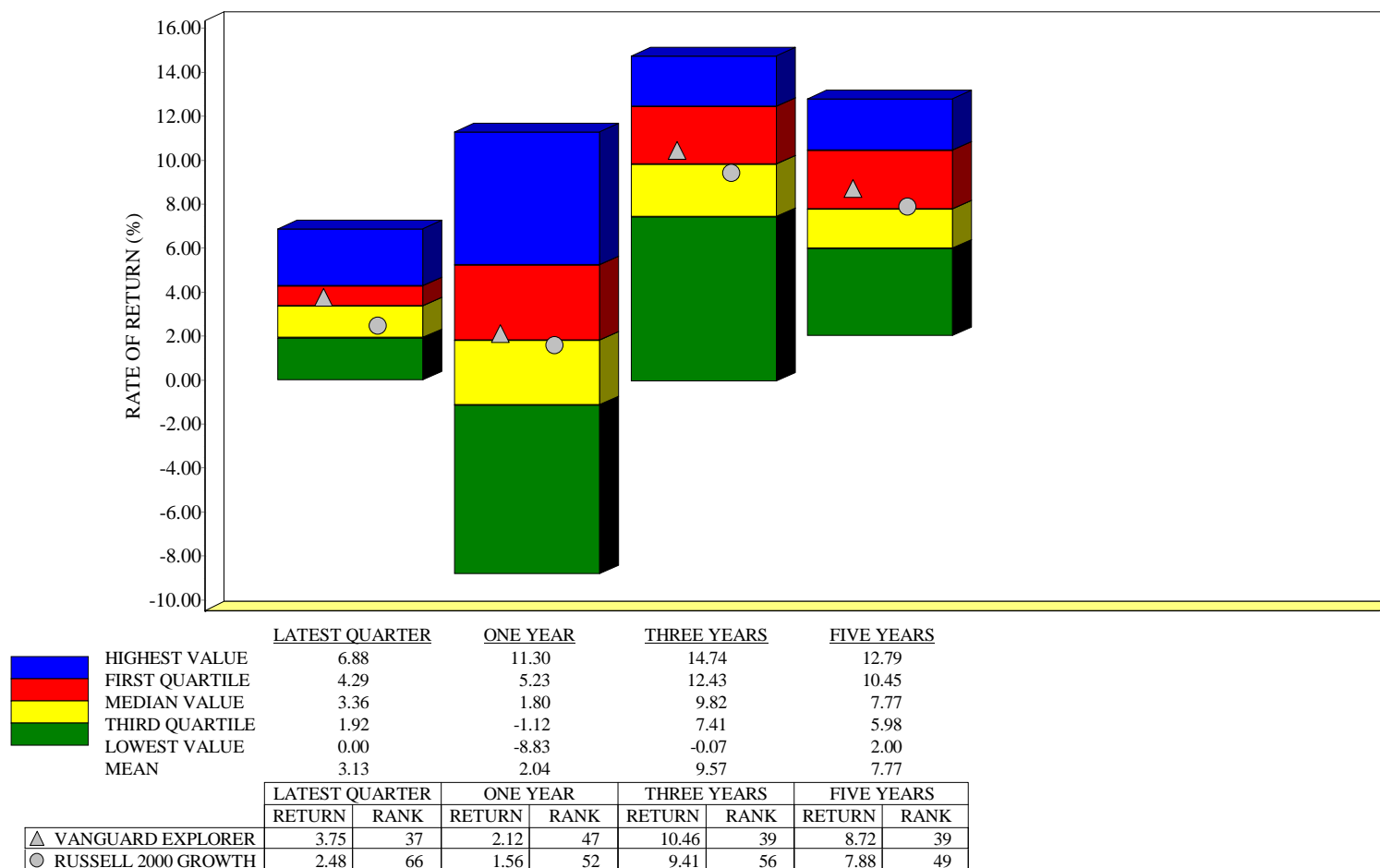
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	15.44	16.41	0.89	2.63	95.69
● RUSSELL 2000 VALUE	13.61	18.10	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
VANGUARD EXPLORER
TIME-WEIGHTED RETURNS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



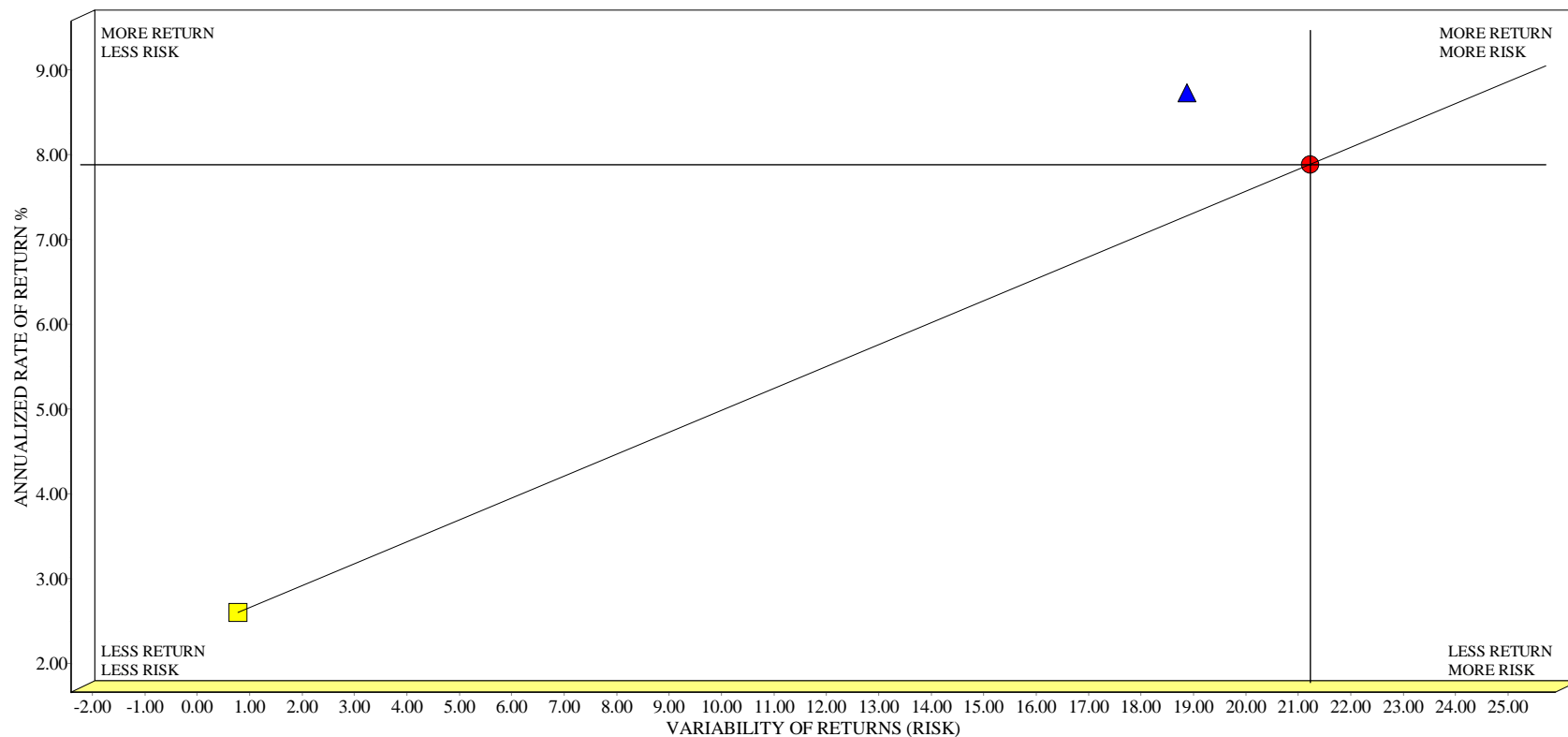
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
VANGUARD EXPLORER	3.75	2.12	10.46	8.72
RUSSELL 2000 GROWTH	2.48	1.56	9.41	7.88

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. SMALL CAP GROWTH MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



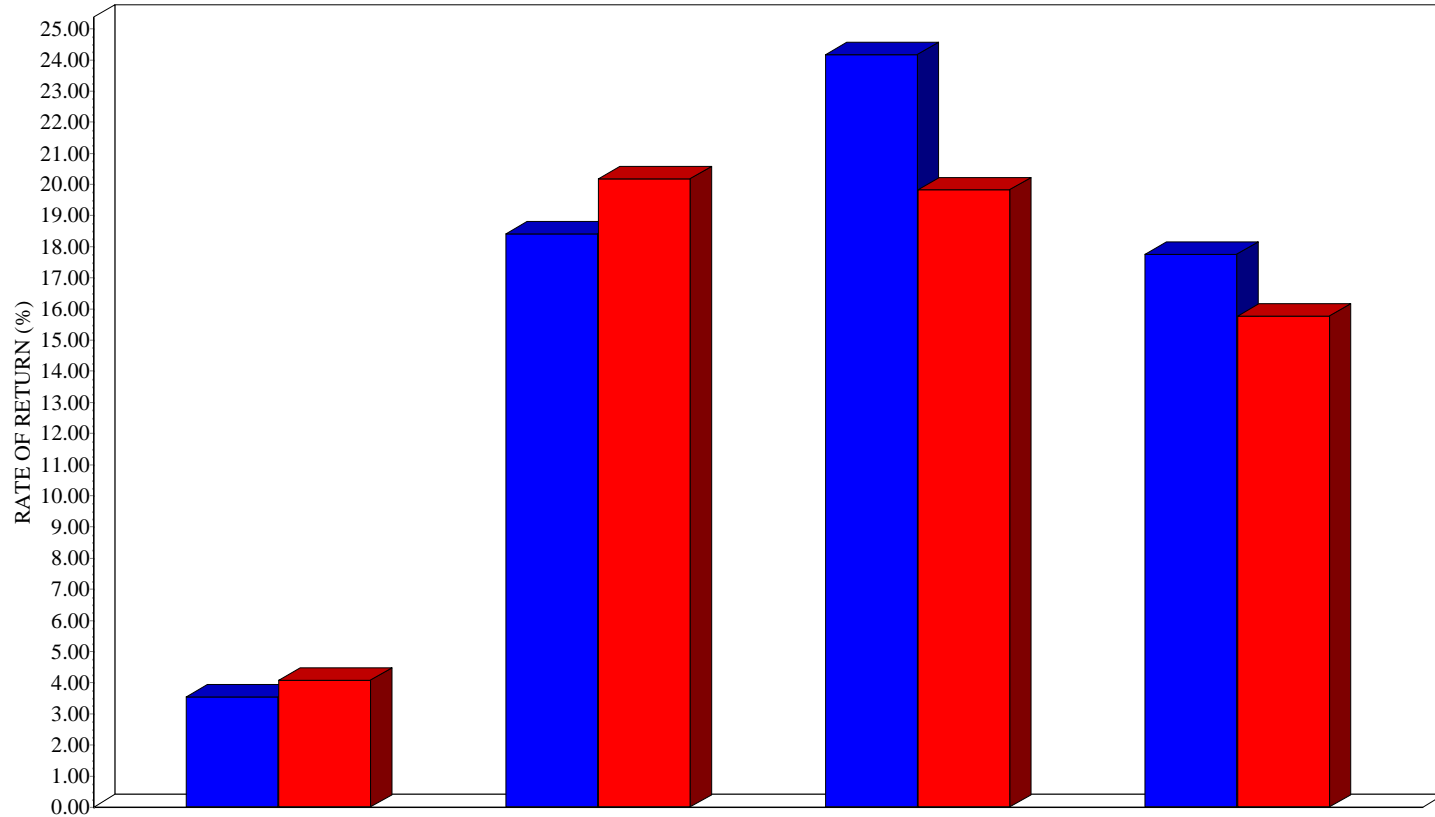
Source: Morningstar, Inc.

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
VANGUARD EXPLORER
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



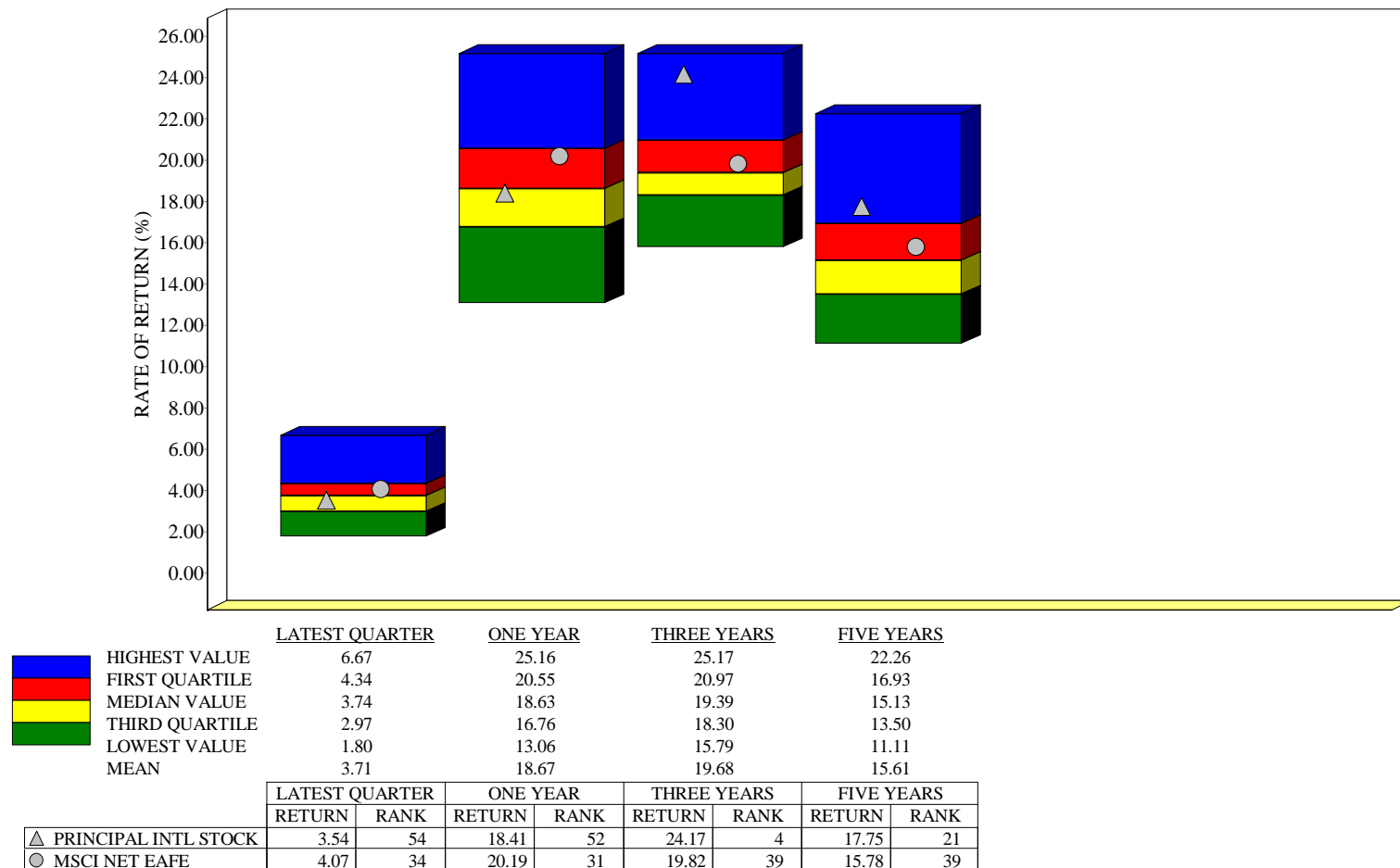
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	8.72	18.87	0.88	1.16	98.86
● RUSSELL 2000 GROWTH	7.88	21.22	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL INTERNATIONAL STOCK
TIME-WEIGHTED RETURNS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



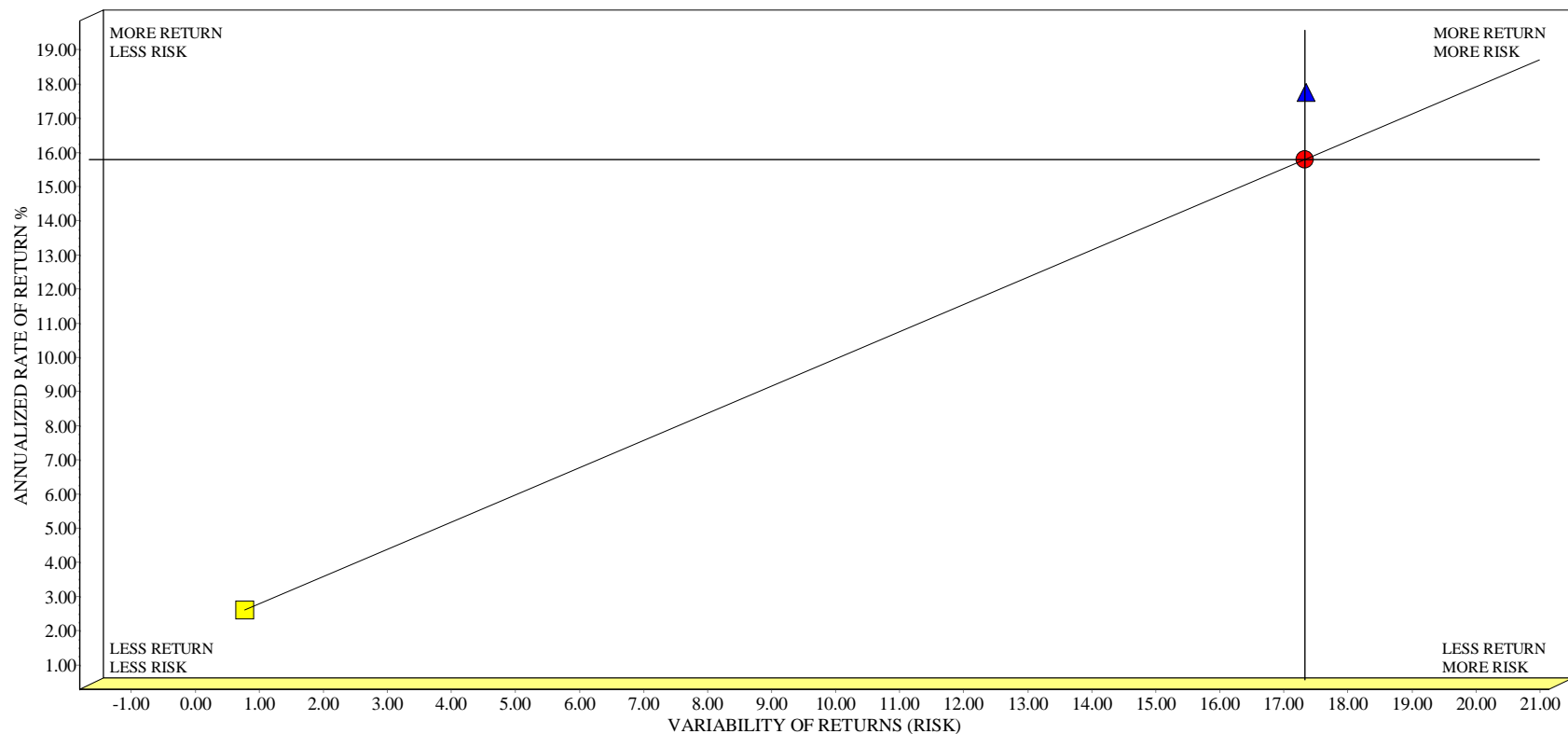
	LATEST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
PRINCIPAL INTL STOCK	3.54	18.41	24.17	17.75
MSCI NET EAFE	4.07	20.19	19.82	15.78

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. FOREIGN EQUITY MUTUAL FUNDS
MARCH 31, 2002 THROUGH MARCH 31, 2007**



Source: Morningstar, Inc.

**CITY OF ROCKVILLE DEFINED CONTRIBUTION PLAN
PRINCIPAL INTERNATIONAL STOCK
CAPITAL MARKET LINE
MARCH 31, 2002 THROUGH MARCH 31, 2007**



	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	17.75	17.35	0.98	2.02	96.32
● MSCI NET EAFE	15.78	17.33	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.60	0.77	1.00	0.00	100.00

Money Market Separate Account-Stnd as of 03/31/2007

Investment Strategy

The investment seeks a high a level of current income consistent with preservation of principal and maintenance of liquidity. It invests in a portfolio of high quality, short-term money market instruments. The investments are U.S. dollar denominated securities which the sub-advisor believes present minimal credit risks. The sub-advisor maintains a dollar weighted average portfolio maturity of 90 days or less.

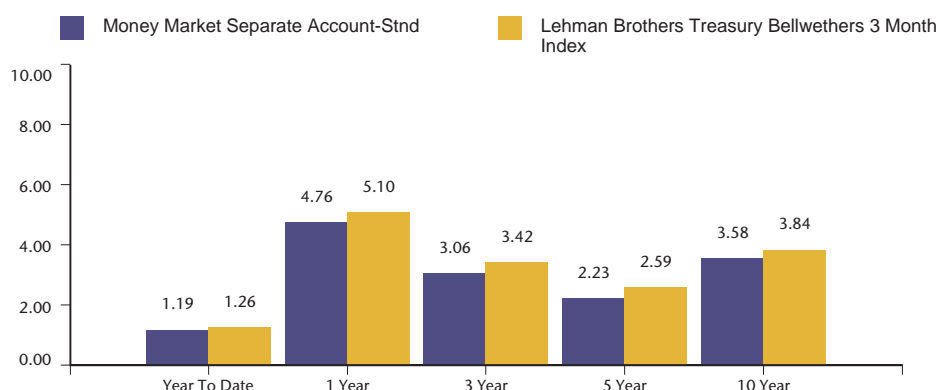


Portfolio managers

Alice B. Robertson Since 05/01/1999. Bachelor, Northwestern U

Tracy Reeg Since 08/31/2004. Bachelor, U of Northern Iowa

Long-term returns % as of 03/31/2007



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including most recent month-end performance, visit the Principal Sponsor Service Center SM or The Principal Retirement Service Center[®] at www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.19	4.76	3.06	2.23	3.58
Lehman Brothers Treasury Bellwethers 3 Month Index %	1.26	5.10	3.42	2.59	3.84

Annual Returns	2006	2005	2004	2003	2002
Total Return %	4.55	2.72	0.87	0.76	1.45



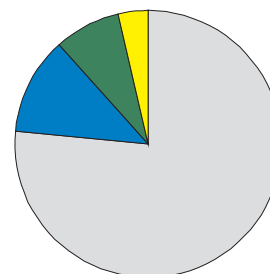
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Operations

Total Investment Expense Net	0.56%
Total Investment Expense Gross	0.56%
Inception Date	12/10/1980
Total Net Assets (mil)	\$3,708.31

Portfolio information

Composition as of 12/31/2006



% of Assets

Cash	76.58
Non-U.S. Bonds	11.83
US Bonds	7.94
Other	3.65

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	24
# of Other Hldgs	45

Portfolio composition

Top ten holdings	% of net assets
Morgan Stanley Grp	2.84
HSBC Bank USA Cayman Branch FRN	2.77
Cafco LLC	2.68
Calyon Finl Products Guernse ([Wts/Rts])	2.57
Scaldis Capital LLC	1.94
Goldman Sachs Group Inc	1.57
Sbc Communications, Inc.	0.83
General Elec Cap FRN	0.73
Citibank N.A. 5.32%	0.69
JP Morgan Intl Derivatives	0.68
% of net assets in top ten holdings 17.30%	

Credit analysis	% Bonds
A1+	71.00
A1	29.00
A2	0.00

Statistics

Avg Eff Maturity (Days)	59.35
7-Day Yield %	4.69

Money Market Separate Account-Stnd as of 03/31/2007



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Returns shown for periods of less than one year are not annualized. All returns displayed here are after Total Investment Expense of the investment option. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Principal Investors Fund is distributed by and securities are offered through Princor Financial Services Corporation, 800-247-4123, member SIPC. Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392.

The 7-Day Yield % more closely reflects the current earnings of this money market investment option than the total return displayed.

This investment option is not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency.

Lehman Brothers Treasury Bellwethers 3 Month Index is composed of public obligations of the U. S. Treasury with a maturity of three months.

Bond and Mortgage Separate Account-Stnd as of 03/31/2007

Investment Strategy

The investment option invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and US government and agency-backed securities. Value is added primarily through sector allocation and security selection. The Separate Account may enter into reverse repurchase agreements to attempt to enhance portfolio return and income.

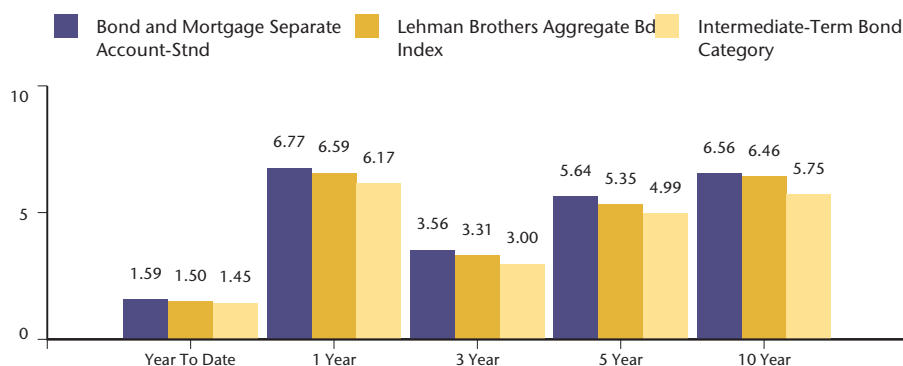


Portfolio managers

William Armstrong, CFA. Since 01/01/1997. Bachelor, Kearney State C

Timothy Warrick, CFA. Since 06/01/2002. M.B.A., Drake U

Long-term returns % as of 03/31/2007



Performance disclosure

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In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.59	6.77	3.56	5.64	6.56
Lehman Brothers Aggregate Bd Index %	1.50	6.59	3.31	5.35	6.46
Intermediate-Term Bond Category %	1.45	6.17	3.00	4.99	5.75
Morningstar Percentile Rankings	-	18	20	17	11
# of funds in category	1137	1086	947	779	390

Annual Returns	2006	2005	2004	2003	2002
Total Return %	4.56	2.48	4.85	5.04	9.73
Lehman Brothers Aggregate Bd Index %	4.33	2.43	4.34	4.10	10.25
Intermediate-Term Bond Category %	4.14	1.80	4.09	5.36	8.19
Morningstar Percentile Rankings	23	15	20	38	19
# of Funds in Category	1069	1019	942	857	755

Morningstar percentile rankings are based on total returns.

Morningstar category

Intermediate-Term Bond

Morningstar Style Box™

As of 12/31/2006

Duration			Quality
Short	Int	Long	
			High
			Medium
			Low

Risk and Return Statistics

as of 03/31/2007 Relative to
Lehman Brothers Aggregate Bd Index

	3Yr	5Yr
Alpha	0.23	0.30
Beta	0.95	0.99
R-Squared	98.71	98.67
Standard Deviation	3.16	3.71
Mean	3.56	5.64
Sharpe Ratio	-0.01	0.77
Excess Risk	0.38	0.44
Information Ratio	0.66	0.66

Operations

Total Investment Expense Net	0.71%
Total Investment Expense Gross	0.71%
Inception Date	02/01/1983
Total Net Assets (mil)	\$6,523.48



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Bond and Mortgage Separate Account-Stdnd as of 03/31/2007

Portfolio information

Composition as of 12/31/2006



Credit Analysis

	% Bonds
AAA	57.07
AA	6.12
A	10.97
BBB	15.86
BB	4.83
B	4.58
Below B	0.57
Not Rated	0.00

Statistics

Avg Eff Duration (Yrs)	4.70
Avg Eff Maturity (Yrs)	5.50
Avg Credit Quality	AA
Avg Weighted Coupon	5.07
Avg Weighted Price	101.94



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.

The full name of this investment option is Principal Bond and Mortgage Separate Account-Standard.

Lehman Brothers Aggregate Bd Index represents securities that are U. S., domestic, taxable, and dollar denominated. The index covers the U. S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Stock Emphasis Balanced Separate Account-Stnd as of 03/31/2007

Investment Strategy

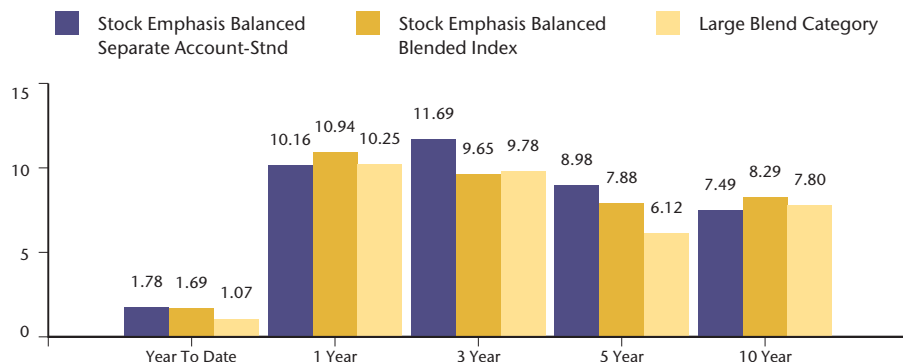
The investment option primarily invests in other Separate Accounts offered by The Principal. It usually maintains at least 50% of assets in common stocks.

Investment Advisor: Principal Financial Advisors

Portfolio managers

Management Team

Long-term returns % as of 03/31/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.78	10.16	11.69	8.98	7.49
Stock Emphasis Balanced Blended Index %	1.69	10.94	9.65	7.88	8.29
Large Blend Category %	1.07	10.25	9.78	6.12	7.80
Morningstar Percentile Rankings	-	54	16	10	56
# of funds in category	2205	2014	1589	1249	530

Annual Returns	2006	2005	2004	2003	2002
Total Return %	14.59	10.20	11.92	24.13	-13.20
Stock Emphasis Balanced Blended Index %	13.45	5.98	10.65	23.42	-11.82
Large Blend Category %	14.24	6.09	10.47	27.98	-21.40
Morningstar Percentile Rankings	45	8	25	77	5
# of Funds in Category	1961	1715	1540	1371	1209

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Blend

Morningstar Style Box™

As of 12/31/2006

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 03/31/2007 Relative to
Stock Emphasis Balanced Blended Index

	3Yr	5Yr
Alpha	0.67	0.00
Beta	1.20	1.00
R-Squared	93.31	100.00
Standard Deviation	6.71	8.67
Mean	11.68	8.97
Sharpe Ratio	1.16	0.73
Excess Return	1.95	0.00
Excess Risk	2.04	0.00
Information Ratio	0.96	1.03

Operations

Total Investment Expense Net	0.78%
Total Investment Expense Gross	0.78%
Inception Date	10/01/1993
Total Net Assets (mil)	\$676.23



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Stock Emphasis Balanced Separate Account-Stnd as of 03/31/2007

Portfolio information

Composition as of 12/31/2006

% of Assets		Top ten holdings		% of net assets	Analysis	
						
U.S. Stocks	52.37	1. Principal Large Company Value		25.97	# of Stock Hldgs	0
US Bonds	21.28	2. Principal Large Company Growth		24.74	# of Bond Hldgs	0
Non-U.S. Stocks	15.26	3. Principal Bond and Mortgage Sep Acct		19.99	# of Other Hldgs	7
Other	8.01	4. Principal Diversified Intl Sep Acct		15.33	GeoAvgCap (mil)	\$24,836.60
Cash	2.11	5. Principal U.S. Property Separate Account		6.42	P/C Ratio	7.99
Non-U.S. Bonds	0.67	6. Principal Small Company Value		3.80	P/E Ratio	16.13
Preferred	0.28	7. Principal Small Company Growth		3.74	P/B Ratio	2.76
Convertibles	0.03	% of net assets in top ten holdings		99.99		

Stock Sector Breakdown

% of net assets		% of net assets		% of net assets	
Information	15.83	Service	50.65	Manufacturing	33.52
Software	1.16	Healthcare	9.87	Consumer Goods	10.12
Hardware	9.01	Consumer Services	8.61	Industrial Materials	11.57
Media	2.06	Business Services	6.47	Energy	8.56
Telecom	3.60	Financial Services	25.70	Utilities	3.27



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The full name of this investment option is Principal Stock Emphasis Balanced Separate Account-Stnd.

Stock Emphasis Balanced Blended Index is composed of 58% Russell 3000 Index, 12% EAFE Index, and 30% Lehman Aggregate Index.

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Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Vanguard Windsor II Fund as of 03/31/2007

Investment Strategy

The investment seeks long-term capital appreciation and income. The fund invests mainly in large- and mid-capitalization companies whose stocks are considered to be undervalued.



Vanguard

Portfolio managers

James P. Barrow Since 06/24/1985. B.S., U of South Carolina

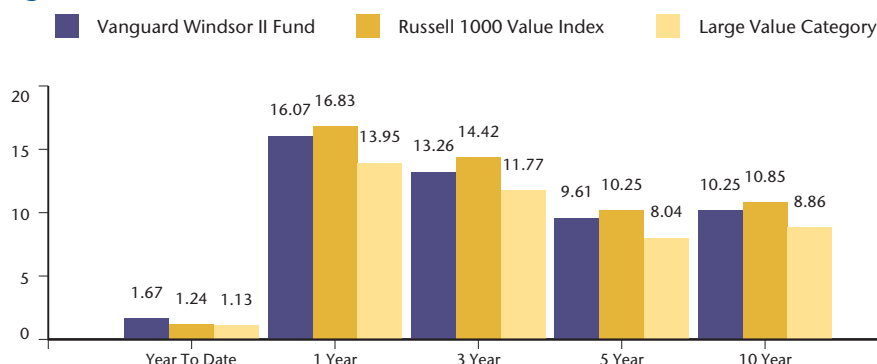
George Davis Since 12/11/2003. M.B.A., Stanford U

Sheldon J. Lieberman Since 12/11/2003. M.B.A., California State U

Jeffrey Shaw Since 01/04/2006. B.A., Princeton U

James Troyer, CFA. Since 02/28/2006. A.B., C of Occidental

Long-term returns % as of 03/31/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.67	16.07	13.26	9.61	10.25
Russell 1000 Value Index %	1.24	16.83	14.42	10.25	10.85
Large Value Category %	1.13	13.95	11.77	8.04	8.86
Morningstar Percentile Rankings	-	20	23	17	22
# of funds in category	1446	1351	1100	829	393

Annual Returns	2006	2005	2004	2003	2002
Total Return %	18.25	7.01	18.31	30.08	-16.86
Russell 1000 Value Index %	22.25	7.05	16.49	30.03	-15.52
Large Value Category %	18.16	5.91	13.25	28.76	-17.91
Morningstar Percentile Rankings	50	33	7	33	43
# of Funds in Category	1321	1199	1075	942	803

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Value

Morningstar Style BoxTM

As of 12/31/2006

Investment style			Market capitalization
Value	Blend	Growth	
Large			
			Medium
			Small

Risk and Return Statistics

as of 03/31/2007 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	0.33	-0.04
Beta	0.86	0.92
R-Squared	91.94	94.36
Standard Deviation	6.13	11.57
Mean	13.26	9.61
Sharpe Ratio	1.49	0.62
Excess Return	-1.16	-0.64
Excess Risk	1.97	2.90
Information Ratio	-0.59	-0.22

Operations

Total Investment Expense Net	0.34%
Total Investment Expense Gross	0.34%
Inception Date	06/24/1985
Total Net Assets (mil)	\$50,142.68
12b-1 Fees	-
Ticker	VWNFX



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Vanguard Windsor II Fund as of 03/31/2007

Portfolio information

Composition as of 12/31/2006



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	12.66	Healthcare	44.17	Consumer Goods	43.15
Hardware	1.80	Consumer Services	11.86	Industrial Materials	13.56
Media	4.59	Business Services	3.58	Energy	13.17
Telecom	1.43	Financial Services	1.50	Utilities	8.28
	4.84		27.23		8.14

Access Funds consist of an assortment of mutual funds from some of the premier names in the mutual fund industry. These investment options provide for additional choice to supplement the Foundation Options we offer through the Principal Due Diligence ProgramSM.

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Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative, by visiting www.principal.com, or by contacting us at 1-800-547-7754. Please read the prospectus carefully before investing.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

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Large Company Value Separate Account-Stnd as of 03/31/2007

Investment Strategy

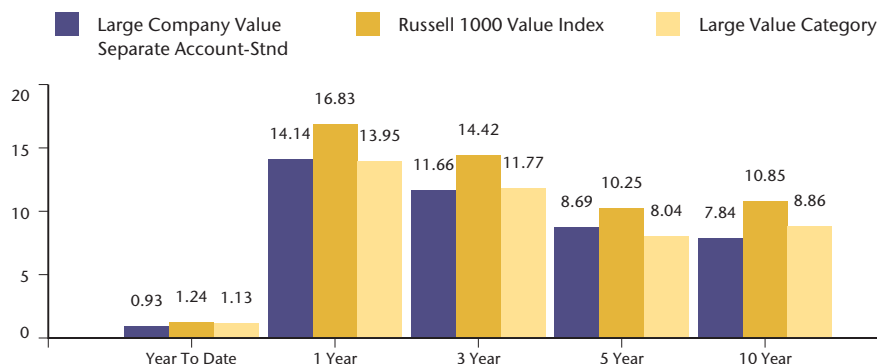
The investment option normally invests the majority of assets in companies with large market capitalizations at the time of purchase. Management selects investments primarily on the basis of fundamental security analysis, focusing on the company's financial stability, sales, earnings, dividend trends, return on equity and industry trends. It may invest up to 25% of assets in foreign securities.



Portfolio managers

John Pihlblad, CFA. Since 01/01/2001. B.A., C of Westminster

Long-term returns % as of 03/31/2007



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit the Principal Sponsor Service CenterSM or The Principal Retirement Service Center[®] at www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	0.93	14.14	11.66	8.69	7.84
Russell 1000 Value Index %	1.24	16.83	14.42	10.25	10.85
Large Value Category %	1.13	13.95	11.77	8.04	8.86
Morningstar Percentile Rankings	-	48	50	32	70
# of funds in category	1446	1351	1100	829	393

Annual Returns	2006	2005	2004	2003	2002
Total Return %	19.92	6.73	12.53	25.50	-13.68
Russell 1000 Value Index %	22.25	7.05	16.49	30.03	-15.52
Large Value Category %	18.16	5.91	13.25	28.76	-17.91
Morningstar Percentile Rankings	26	36	57	74	18
# of Funds in Category	1321	1199	1075	942	803

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Value

Morningstar Style BoxTM

As of 12/31/2006

Investment style			Market capitalization
Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 03/31/2007 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	-3.65	-0.40
Beta	1.12	0.85
R-Squared	94.94	94.09
Standard Deviation	7.88	10.64
Mean	11.65	8.69
Sharpe Ratio	0.99	0.59
Excess Return	-2.77	-1.56
Excess Risk	1.95	3.19
Information Ratio	-1.42	-0.49

Operations

Total Investment Expense Net	0.61 %
Total Investment Expense Gross	0.61 %
Inception Date	06/01/1995
Total Net Assets (mil)	\$479.26

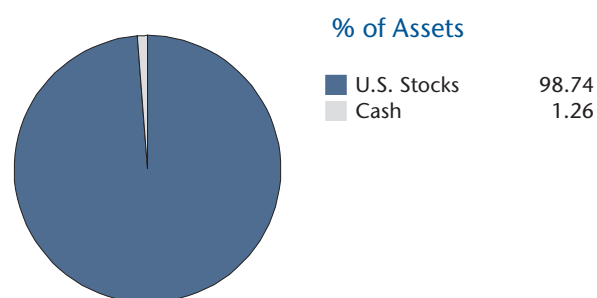


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Large Company Value Separate Account-Std as of 03/31/2007

Portfolio information

Composition as of 12/31/2006



Top ten holdings

% of net assets

Analysis

1. ExxonMobil Corporation	6.45
2. Bank of America Corporation	3.62
3. Citigroup, Inc.	3.49
4. J.P. Morgan Chase & Co.	2.58
5. Chevron Corporation	2.54
6. General Electric Company	2.47
7. Pfizer Inc.	2.32
8. ConocoPhillips	2.00
9. Procter & Gamble Company	1.95
10. AT&T, Inc.	1.89
% of net assets in top ten holdings	29.31

# of Stock Hldgs	153
# of Bond Hldgs	0
# of Other Hldgs	2
GeoAvgCap (mil)	\$47,006.45
Turnover Ratio	78%
P/C Ratio	6.97
P/E Ratio	13.72
P/B Ratio	2.41

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	0.20	Healthcare	7.20	Consumer Goods	8.30
Hardware	2.80	Consumer Services	3.51	Industrial Materials	9.15
Media	3.94	Business Services	1.53	Energy	14.28
Telecom	6.30	Financial Services	36.87	Utilities	5.93



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.

The full name of this investment option is Principal Large Company Value Separate Account-Standard.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Large-Cap Stock Index Separate Account-Stnd as of 03/31/2007

Investment Strategy

The investment option normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Management attempts to mirror the investment performance of the index by allocating assets in approximately the same weightings as the S&P 500 Index. Over the long-term, management seeks a very close correlation between the performance of the Separate Account before expenses and that of the S&P 500 Index.

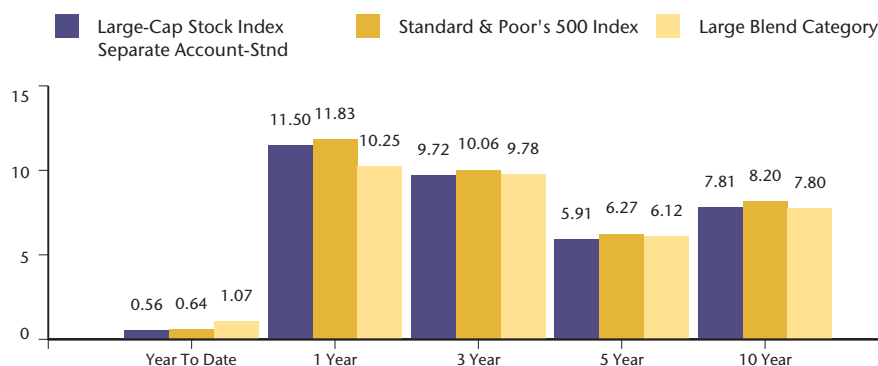


Portfolio managers

Dirk Laschanzky, CFA. Since 10/01/2003. B.A., U of Iowa

Mariateresa Monaco, CFA. Since 09/01/2005. Master, Northeastern U

Long-term returns % as of 03/31/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	0.56	11.50	9.72	5.91	7.81
Standard & Poor's 500 Index %	0.64	11.83	10.06	6.27	8.20
Large Blend Category %	1.07	10.25	9.78	6.12	7.80
Morningstar Percentile Rankings	-	27	48	50	47
# of funds in category	2205	2014	1589	1249	530

Annual Returns	2006	2005	2004	2003	2002
Total Return %	15.46	4.58	10.49	28.18	-22.38
Standard & Poor's 500 Index %	15.79	4.91	10.87	28.67	-22.09
Large Blend Category %	14.24	6.09	10.47	27.98	-21.40
Morningstar Percentile Rankings	29	62	46	38	52
# of Funds in Category	1961	1715	1540	1371	1209

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Blend

Morningstar Style BoxTM

As of 12/31/2006

Investment style

Value	Blend	Growth	
			Market capitalization
			Medium
			Small

Risk and Return Statistics

as of 03/31/2007 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-0.31	-0.33
Beta	1.00	1.00
R-Squared	100.00	100.00
Standard Deviation	6.95	12.28
Mean	9.72	5.91
Sharpe Ratio	0.86	0.31
Excess Return	-0.34	-0.36
Excess Risk	0.03	0.03
Information Ratio	-11.89	-12.23

Operations

Total Investment Expense Net	0.31%
Total Investment Expense Gross	0.31%
Inception Date	01/01/1990
Total Net Assets (mil)	\$6,766.43

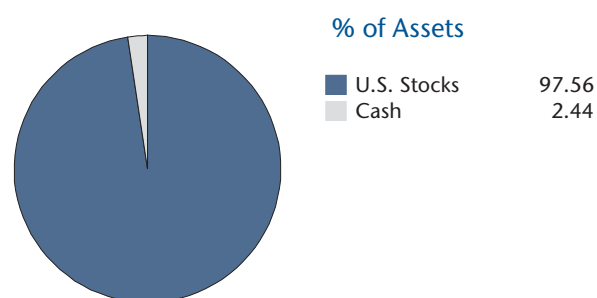


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Large-Cap Stock Index Separate Account-Stdnd as of 03/31/2007

Portfolio information

Composition as of 12/31/2006



Top ten holdings

	% of net assets
1. ExxonMobil Corporation	3.43
2. General Electric Company	2.94
3. Citigroup, Inc.	2.10
4. Microsoft Corporation	1.98
5. Bank of America Corporation	1.84
6. Procter & Gamble Company	1.56
7. Johnson & Johnson	1.47
8. American International Group	1.43
9. Pfizer Inc.	1.43
10. Altria Group, Inc.	1.38
% of net assets in top ten holdings	19.56

Analysis

# of Stock Hldgs	499
# of Bond Hldgs	0
# of Other Hldgs	2
GeoAvgCap (mil)	\$53,127.71
Turnover Ratio	4%
P/C Ratio	9.34
P/E Ratio	15.95
P/B Ratio	2.71

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	20.35	Healthcare	45.82	Consumer Goods	33.83
Hardware	3.80	Consumer Services	12.07	Industrial Materials	8.56
Media	9.23	Business Services	7.66	Energy	11.96
Telecom	3.80	Financial Services	3.92	Utilities	9.81
	3.52		22.17		3.50



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

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The full name of this investment option is Principal Large Cap Stock Index Sep Acct-Standard.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Each index based investment option is invested in the stocks of the index it tracks. Performance of indexes reflects the unmanaged result for the market segment the selected stocks represent. There is no assurance an index based investment option will match the performance of the index tracked.

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Large Company Growth Separate Account-Stnd as of 03/31/2007

Investment Strategy

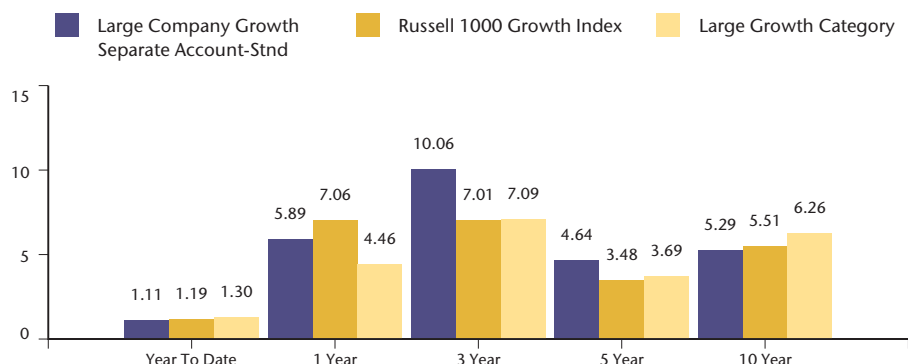
The investment option primarily invests in common stocks of large capitalization companies with strong earnings growth potential. It normally invests the majority of assets in companies with large market capitalizations at the time of purchase. Management places strong emphasis on companies it believes are guided by high quality management teams. It also attempts to identify those companies that are market leaders possessing the ability to control pricing and margins in their respective industries. It may invest up to 25% of assets in foreign securities.



Portfolio managers

Anthony Rizza, CFA. Since 01/01/2005. B.S., U of Connecticut

Long-term returns % as of 03/31/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	1.11	5.89	10.06	4.64	5.29
Russell 1000 Growth Index %	1.19	7.06	7.01	3.48	5.51
Large Growth Category %	1.30	4.46	7.09	3.69	6.26
Morningstar Percentile Rankings	-	34	15	31	65
# of funds in category	1754	1678	1390	1118	454

Annual Returns	2006	2005	2004	2003	2002
Total Return %	9.67	11.82	9.16	25.98	-28.87
Russell 1000 Growth Index %	9.07	5.26	6.30	29.75	-27.88
Large Growth Category %	7.02	6.73	8.21	29.20	-26.79
Morningstar Percentile Rankings	24	14	37	61	63
# of Funds in Category	1643	1496	1360	1241	1083

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Growth

Morningstar Style Box™

As of 12/31/2006

Investment style			Market capitalization
Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 03/31/2007 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	2.90	1.20
Beta	1.00	0.90
R-Squared	84.60	89.75
Standard Deviation	9.14	12.34
Mean	10.05	4.64
Sharpe Ratio	0.70	0.21
Excess Return	3.04	1.16
Excess Risk	3.58	4.15
Information Ratio	0.85	0.28

Operations

Total Investment Expense Net	0.71%
Total Investment Expense Gross	0.71%
Inception Date	06/01/1995
Total Net Assets (mil)	\$1,173.53



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Large Company Growth Separate Account-Stdnd as of 03/31/2007

Portfolio information

Composition as of 12/31/2006



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	23.24	Healthcare	52.80	Consumer Goods	23.96
Hardware	2.07	Consumer Services	14.82	Industrial Materials	11.83
Media	20.15	Business Services	16.15	Energy	8.66
Telecom	1.02	Financial Services	10.43	Utilities	3.47
	0.00		11.40		0.00



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The full name of this investment option is Principal Large Company Growth Separate Account-Standard.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Effective January 5, 2005, this portfolio is sub-advised by Columbus Circle Investors. Prior to January 5, 2005, the portfolio was sub-advised by Principal Global Investors.

Large-Cap Growth I Separate Account-Stnd as of 03/31/2007

Investment Strategy

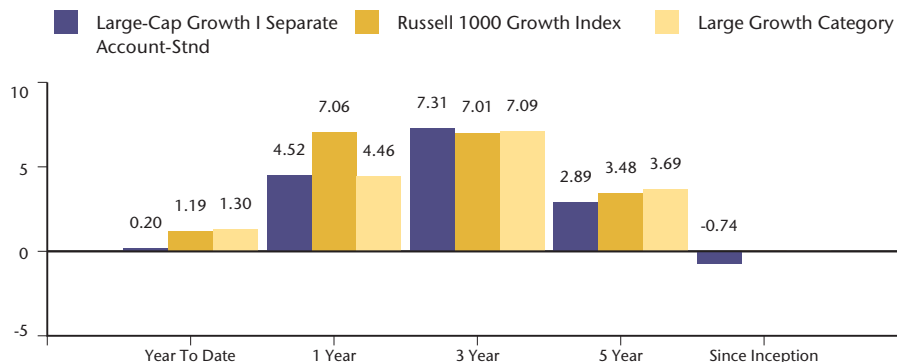
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in equity securities of companies with market capitalizations within the range of companies in the Russell 1000 Growth index (as of December 31, 2006, this range was between approximately \$1.2 billion and \$446.9 billion) at the time of purchase. It invests less than 25% of total assets in foreign companies. The fund may also purchase futures and options.



Portfolio managers

Robert W. Sharps, CFA. Since 08/19/2004. M.B.A., U of Pennsylvania

Long-term returns % as of 03/31/2007



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	0.20	4.52	7.31	2.89	-0.74
Russell 1000 Growth Index %	1.19	7.06	7.01	3.48	-
Large Growth Category %	1.30	4.46	7.09	3.69	-
Morningstar Percentile Rankings	-	49	44	59	-
# of funds in category	1754	1678	1390	1118	-

Annual Returns	2006	2005	2004	2003	2002
Total Return %	5.93	7.44	9.12	24.01	-27.76
Russell 1000 Growth Index %	9.07	5.26	6.30	29.75	-27.88
Large Growth Category %	7.02	6.73	8.21	29.20	-26.79
Morningstar Percentile Rankings	61	38	38	73	54
# of Funds in Category	1643	1496	1360	1241	1083

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Growth

Morningstar Style BoxTM

As of 12/31/2006

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 03/31/2007 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	0.21	-0.51
Beta	1.05	0.97
R-Squared	83.91	92.52
Standard Deviation	9.72	13.10
Mean	7.32	2.89
Sharpe Ratio	0.41	0.08
Excess Return	0.31	-0.58
Excess Risk	3.93	3.60
Information Ratio	0.08	-0.16

Operations

Total Investment Expense Net	0.90%
Total Investment Expense Gross	0.91%
Waiver Expiration Date	02/28/2008
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,461.28



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Large-Cap Growth I Separate Account-Stdnd as of 03/31/2007

Portfolio information

Composition as of 12/31/2006



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	8.91	Healthcare	17.97	Consumer Goods	1.58
Hardware	17.98	Consumer Services	15.37	Industrial Materials	8.24
Media	2.32	Business Services	11.05	Energy	1.96
Telecom	3.80	Financial Services	10.82	Utilities	0.00



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The full name of this investment option is Principal Partners Large-Cap Growth I Sep Acct-Standard.

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This Separate Account invests solely in the Institutional class shares of the Principal Investors Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

Effective August 24, 2004, this portfolio is sub-advised by T. Rowe Price Associates, Inc. Prior to August 24, 2004, the portfolio was sub-advised by Morgan Stanley Investment Management Inc.

Small Company Value Separate Account-Stnd as of 03/31/2007

Investment Strategy

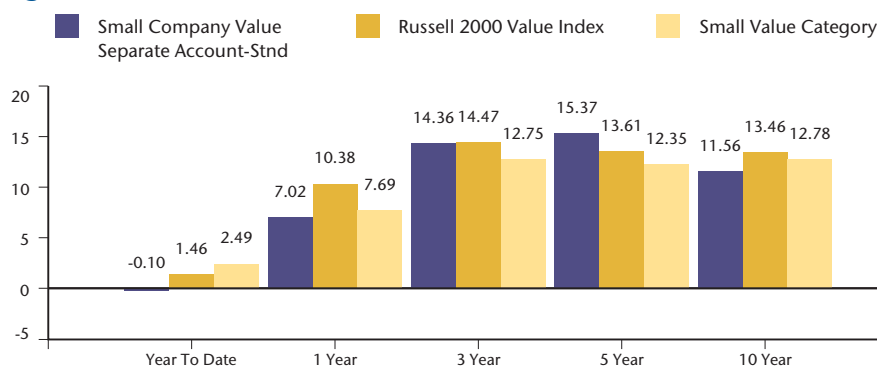
The investment seeks long-term growth of capital and invests primarily in common stocks of small capitalization companies. It normally invests the majority of assets in companies with market capitalizations similar to those companies in the Russell 2000 Value Index. Management focuses on stocks of small-sized companies that are undervalued at the time of purchase. These companies are often characterized by below-average stock price earnings ratios and above-average dividend yields. The Separate Account may invest up to 25% of assets in foreign securities.



Portfolio managers

Tom Morabito, CFA. Since 08/01/2000. M.B.A., Northeastern U

Long-term returns % as of 03/31/2007



Performance disclosure

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In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-0.10	7.02	14.36	15.37	11.56
Russell 2000 Value Index %	1.46	10.38	14.47	13.61	13.46
Small Value Category %	2.49	7.69	12.75	12.35	12.78
Morningstar Percentile Rankings	-	54	26	11	76
# of funds in category	445	400	310	238	79

Annual Returns	2006	2005	2004	2003	2002
Total Return %	19.19	9.73	20.56	44.84	-1.48
Russell 2000 Value Index %	23.48	4.71	22.25	46.03	-11.43
Small Value Category %	16.32	5.83	20.93	42.73	-9.42
Morningstar Percentile Rankings	27	15	53	33	11
# of Funds in Category	382	342	304	269	220

Morningstar percentile rankings are based on total returns.

Morningstar category

Small Value

Morningstar Style BoxTM

As of 12/31/2006

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 03/31/2007 Relative to Russell 2000 Value Index

	3Yr	5Yr
Alpha	0.08	2.44
Beta	0.98	0.91
R-Squared	95.24	95.48
Standard Deviation	12.61	14.34
Mean	14.36	15.37
Sharpe Ratio	0.85	0.89
Excess Return	-0.11	1.75
Excess Risk	2.76	3.39
Information Ratio	-0.04	0.52

Operations

Total Investment Expense Net	0.91%
Total Investment Expense Gross	0.91%
Inception Date	06/01/1995
Total Net Assets (mil)	\$391.35

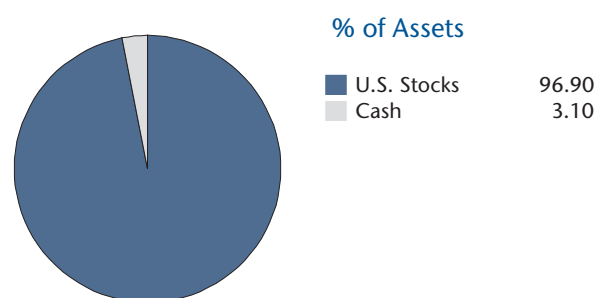


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Small Company Value Separate Account-Std as of 03/31/2007

Portfolio information

Composition as of 12/31/2006



Top ten holdings

	% of net assets
1. Community Trust Bancorp, Inc.	1.30
2. Deerfield Triarc Capital Corporation	1.30
3. Arbor Realty Trust, Inc.	1.26
4. Columbia Banking System, Inc.	1.25
5. BancFirst Corporation	1.25
6. Sterling Financial Corporation	1.18
7. Entertainment Properties Trust	1.17
8. Urstadt Biddle Properties, Inc.	1.17
9. UIL Holdings Corporation	1.16
10. Idacorp, Inc.	1.15
% of net assets in top ten holdings	12.19

Analysis

# of Stock Hldgs	146
# of Bond Hldgs	0
# of Other Hldgs	1
GeoAvgCap (mil)	\$983.74
Turnover Ratio	84%
P/C Ratio	7.24
P/E Ratio	16.35
P/B Ratio	1.98

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	12.81	Healthcare	56.94	Consumer Goods	30.25
Hardware	2.13	Consumer Services	3.58	Industrial Materials	4.86
Media	8.72	Business Services	9.37	Energy	14.51
Telecom	1.21	Financial Services	8.88	Utilities	5.59
	0.75		35.11		5.29



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.

The full name of this investment option is Principal Small Company Value Separate Acct-Standard.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

This investment option is subject to more fluctuation in value than other investment options with stocks of larger, more stable companies.

Vanguard Explorer Fund as of 03/31/2007

Investment Strategy

The investment seeks to provide long-term capital appreciation. The fund invests mainly in the stocks of small companies. These companies tend to be unseasoned but are considered by the advisors to have superior growth potential. These companies often provide little or no dividend income.



Vanguard

Portfolio managers

John Granahan, CFA. Since 02/28/1990. Graduate, Catholic U of America

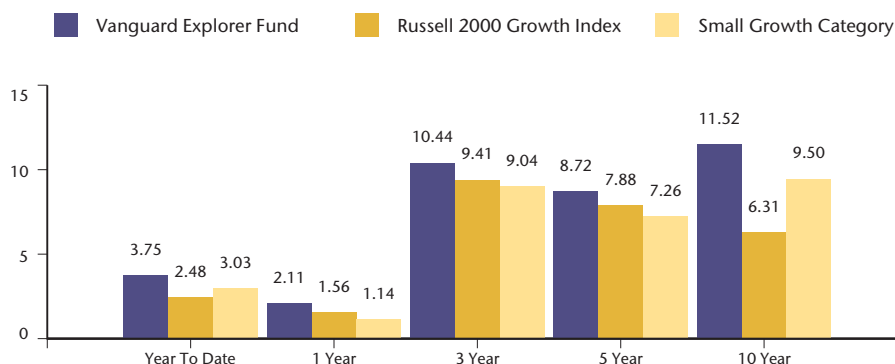
Kenneth L. Abrams Since 02/01/1994. M.B.A., Stanford U

Edward Antoian, CFA. Since 08/01/1997. M.B.A., U of Pennsylvania

Ford B. Draper Jr. Since 02/01/2005. MBA, Columbia U.

James Troyer, CFA. Since 02/17/2006. A.B., C of Occidental

Long-term returns % as of 03/31/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	3.75	2.11	10.44	8.72	11.52
Russell 2000 Growth Index %	2.48	1.56	9.41	7.88	6.31
Small Growth Category %	3.03	1.14	9.04	7.26	9.50
Morningstar Percentile Rankings	-	41	35	34	34
# of funds in category	827	758	621	513	220

Annual Returns	2006	2005	2004	2003	2002
Total Return %	9.70	9.28	13.75	44.25	-24.58
Russell 2000 Growth Index %	13.35	4.15	14.31	48.54	-30.26
Small Growth Category %	10.83	6.09	12.16	45.88	-27.94
Morningstar Percentile Rankings	55	24	41	49	34
# of Funds in Category	746	685	611	572	503

Morningstar percentile rankings are based on total returns.

Morningstar category

Small Growth

Morningstar Style Box™

As of 12/31/2006

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 03/31/2007 Relative to Russell 2000 Growth Index

	3Yr	5Yr
Alpha	1.62	1.24
Beta	0.85	0.87
R-Squared	97.52	98.25
Standard Deviation	13.47	16.43
Mean	10.44	8.72
Sharpe Ratio	0.54	0.43
Excess Return	1.03	0.84
Excess Risk	3.11	3.22
Information Ratio	0.33	0.26

Operations

Total Investment Expense Net	0.46%
Total Investment Expense Gross	0.46%
Inception Date	12/11/1967
Total Net Assets (mil)	\$12,123.57
12b-1 Fees	-
Ticker	VEXPX



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Vanguard Explorer Fund as of 03/31/2007

Portfolio information

Composition as of 12/31/2006



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	18.86	Healthcare	56.39	Consumer Goods	24.75
Hardware	6.11	Consumer Services	16.24	Industrial Materials	6.33
Media	10.29	Business Services	13.59	Energy	12.96
Telecom	1.02	Financial Services	16.02	Utilities	4.87
	1.44		10.54		0.59

Access Funds consist of an assortment of mutual funds from some of the premier names in the mutual fund industry. These investment options provide for additional choice to supplement the Foundation Options we offer through the Principal Due Diligence ProgramSM.

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Securities are offered through Prncor Financial Services Corporation, 800-247-4123, member SIPC. Prncor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392.

Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative, by visiting www.principal.com, or by contacting us at 1-800-547-7754. Please read the prospectus carefully before investing.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

This investment option is subject to more fluctuation in value than other investment options with stocks of larger, more stable companies.

Diversified International Separate Account-Stnd as of 03/31/2007

Investment Strategy

The investment option normally invests the majority of assets in companies in at least three different countries. It invests in securities of companies with their principal place of business or principal office outside of the United States; companies for which the principal securities trade on a foreign exchange; and companies, regardless of where their securities are traded, that derive 50% or more of their total revenue from goods or services produced or sold outside of the United States. The Separate Account may invest securities of companies with small to medium market capitalizations.

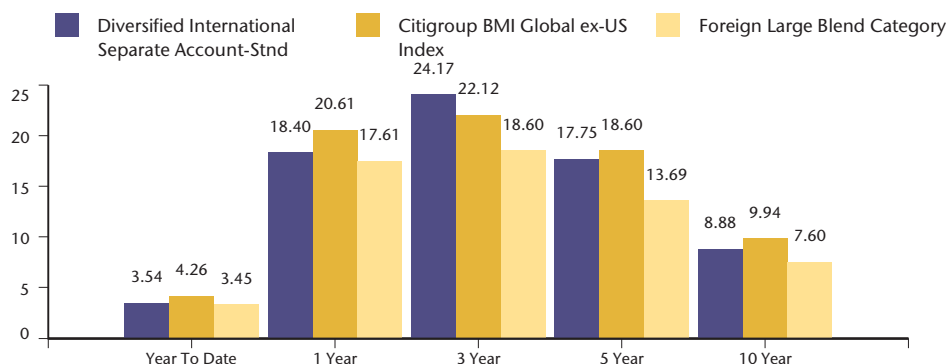


Portfolio managers

Paul Blankenhagen, CFA. Since 12/01/2003. Master, Drake U

Juliet Cohn Since 05/01/2004. Bachelor, Trinity C

Long-term returns % as of 03/31/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	3.54	18.40	24.17	17.75	8.88
Citigroup BMI Global ex-US Index %	4.26	20.61	22.12	18.60	9.94
Foreign Large Blend Category %	3.45	17.61	18.60	13.69	7.60
Morningstar Percentile Rankings	-	36	2	5	21
# of funds in category	759	679	546	446	191

Annual Returns	2006	2005	2004	2003	2002
Total Return %	27.99	24.14	20.99	33.73	-15.57
Citigroup BMI Global ex-US Index %	27.28	19.59	22.51	43.53	-13.50
Foreign Large Blend Category %	24.82	14.81	17.43	33.56	-16.88
Morningstar Percentile Rankings	15	3	10	41	34
# of Funds in Category	651	582	535	483	433

Morningstar percentile rankings are based on total returns.

Morningstar category

Foreign Large Blend

Morningstar Style BoxTM

As of 12/31/2006

Investment style			Market capitalization
Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 03/31/2007 Relative to Citigroup BMI Global ex-US Index

	3Yr	5Yr
Alpha	0.44	-0.88
Beta	1.08	1.01
R-Squared	97.24	96.67
Standard Deviation	11.42	13.67
Mean	24.16	17.76
Sharpe Ratio	1.66	1.08
Excess Return	2.08	-0.83
Excess Risk	2.07	2.50
Information Ratio	1.01	-0.33

Operations

Total Investment Expense Net	1.06%
Total Investment Expense Gross	1.06%
Inception Date	05/20/1987
Extended Performance	
Inception Date [#]	04/30/1987
Total Net Assets (mil)	\$3,561.20



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Diversified International Separate Account-Stdnd as of 03/31/2007

Portfolio information

Composition as of 12/31/2006

% of Assets		Top ten holdings		% of net assets	Analysis	
	Non-U.S. Stocks	98.38	1. Toyota Motor	1.27	# of Stock Hldgs	716
	Cash	0.89	2. Banco Santander Central Hispano	1.25	# of Bond Hldgs	2
	Preferred	0.51	3. Roche Holding	1.21	# of Other Hldgs	17
	Other	0.18	4. Nestle	1.16	GeoAvgCap (mil)	\$23,463.29
	Non-U.S. Bonds	0.04	5. Vodafone Grp	1.13	Turnover Ratio	88%
			6. Credit Suisse Grp	1.01	P/C Ratio	8.42
			7. Barclays	0.99	P/E Ratio	14.58
			8. Eni	0.98	P/B Ratio	2.50
			9. Total SA	0.96		
			10. E.ON	0.96		
			% of net assets in top ten holdings		10.92	

Top 5 Countries	% of net assets	Regional exposure	% of net assets
United Kingdom	21.12	Europe	60.71
Japan	18.07	Japan	18.36
Switzerland	8.22	Pacific Rim	12.78
France	7.30	Other	6.53
Germany	5.89	Latin America	1.63



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The full name of this investment option is Principal Diversified International Sep Acct-Standard.

Citigroup BMI Global ex-US Index consists of 100% of each country's available capitalization. This excludes the United States capitalization.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

This investment option is subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

Description of Key Charts

Pie Chart - Shows the allocation of assets among classes and investment managers.

Bar Chart - Compares absolute performance of the portfolio to the absolute performance of the Benchmark Index.

Quartile Chart - Represents a twenty-five percent range of outcomes. A first quartile ranking means that the manager performed in the top twenty-five percent of its peer universe.

Risk Return Chart (Capital Market Line) - An analysis that exhibits the rate of return in relation to the volatility of those returns as measured by the annualized standard deviation of quarterly returns.

Characteristics - Outlines the general characteristics, i.e. median market capitalization, price earnings ratio, average quality etc., of the underlying securities that make up the portfolio.

Major Equity Strategies and Terminology

Equity - Investment or ownership interest possessed by shareholders in a corporation.

Top-Down - means that the manager looks at the “big picture” second – interest rates, the domestic and/or global economy, the money supply and other economic measures, Federal Reserve behavior, trade figures, inflation, etc. to determine the portfolio allocation to stocks, bonds or cash. Secondly, the manager chooses, for investment, specific sectors and industries consistent within the above mentioned factors. Finally, the manager picks specific securities to buy in the chosen groups.

Bottom-up - refers to a manager whose practice it is second to choose securities that are attractive buys because of specific characteristics of the security. They attempt to find values in these securities anticipated to create future opportunities for profit.

Fundamental - This style includes managers who generate ideas by examining industry publications, 13D filings, company reports and documents, and thorough discussions with company officials. They also use SEC documents to examine a company's financial strength. Attention is also given to industry dynamics as well as the potential for events to occur that would expose a company's underlying values.

Core - managers handle diversified portfolios, typically using a broad index as their benchmark. They are hired to obtain at least general market performance. Core managers are the foundation of active equity portfolio management on which specialized, more dynamic management is built.

Value - managers analyze a universe of stocks and identify those that may be significantly undervalued (cheap) relative to a variety of fundamental and/or technical criteria. A variety of different "tests" are applied to each stock under analysis based upon the manager's definition of value. Some of the most common measures of value include the price/earnings (P/E) ratio, price/book value ratio, and price/cash flow ratio.

Growth - actually encompasses several styles. In general, managers emphasizing growth stocks attempt to identify companies whose sales, earnings, etc. are growing or are expected to grow more rapidly than other stocks and for the economy as a whole.

Sector Rotation - stresses identification and overemphasis of the sectors of the stock market expected to perform well and underweighting the expected laggards. The investment approach is "top down" in that emphasized sectors are usually identified as those that should perform well based upon anticipated economic, political, demographic and social trends.

Indexing (passive investing) - The objective of the index style is to mirror the S&P 500, or another index, and replicate the performance of that index by purchasing all or a representative sampling of the stocks in that index. Managers hold a large number of stocks in their portfolios with performance results not heavily dependent upon any single issue.

Contrarian - Style of management that invests in companies that are relatively unpopular and out of favor with a majority of investors.

Volatility - A measure of the size and frequency of the fluctuations in the value of a stock, bond or a portfolio. The greater the volatility, the higher the risk involved in holding the investment.

Median Market Capitalization - The middle market value in a distribution of stock holdings.

Price Earnings Ratio (P/E) - The current price of a stock divided by its earnings per share.

Earnings Per Share (EPS) - That portion of a company's profit allocated to each outstanding share of common stock.

Price to Book Ratio (P/B) - The current price of a stock divided by its book value per share.

Major Fixed Income Strategies and Terminology

Fixed Income – Debt instruments issued by corporations, governments or government agencies characterized by a fixed interest rate and stated maturity date.

Top-Down - Means that the manager looks at the “big picture” second - interest rates, the domestic and/or global economy, the money supply and other economic measures, Federal Reserve behavior, trade figures, inflation, etc. to determine the optimal duration, sector and quality of the debt securities held in the portfolio. Secondly, the manager chooses, for investment, specific sectors and industries consistent within the above mentioned factors. Finally, the manager picks specific debt securities to buy in the chosen groups.

Bottom-up - Refers to a manager whose practice it is second to choose the debt securities that are attractive buys because of specific characteristics of the security. They attempt to find values in these securities anticipated to create future opportunities for profit.

Interest Rate Anticipation - The interest rate anticipator employs an active bond strategy to adjust risk/return potentials based on attempting to anticipate change in various levels of interest. If interest rates are going up, the interest rate anticipator will shorten maturities. If rates are going down, maturities will be lengthened.

Market Timing - Market timing may be viewed as extreme interest rate anticipation. This manager is generally fully invested in long-term bonds if rates are expected to decline and up to 100% in cash if rates are likely to rise. There is little security selection involved: to implement very large purchases and sales very quickly, the timer uses only the most liquid bonds, usually Treasury Bonds.

Sector, Coupon, Credit Analysis - This style is often used in conjunction with other fixed income styles to select individual bonds. The current yield spreads between bonds in different sectors (e.g. U.S. Government versus corporate), with different coupons, or with different credit ratings are compared with the historic yield spreads to determine the most attractive sectors, coupons and credit ratings.

Indexing (passive investing) - A passive management style, indexing, involves buying a portfolio that replicates a chosen bond index in all characteristics (e.g. average maturity, coupon, quality). However, the portfolio holds only a fraction of the number of bonds in the index, but holds many more than in other styles of fixed income management. The goal is to match the performance of the index.

Duration - A measure of the effective maturity of a bond, defined as the weighted average of the times until each payment, with weights proportional to the present value of the payment.

Volatility - A measure of the size and frequency of the fluctuation in the value of a stock, bond or a portfolio. The greater the volatility, the higher the risk involved in holding the investment.

Convexity - A mathematical prediction of how a bond will perform relative to other bonds of similar duration given a specific change in interest rates. For example, a debt security is said to have positive convexity should a decline in interest rates produce a price rise above the average equivalent security and negative convexity should the decline in interest rates produce a price rise below the average equivalent security.

Intermediate Term Bond - Bonds with a maturity between three and ten years.

Long Term Bond - A bond with a maturity of ten years or more.

Investment Grade - Bonds rated BBB (Baa) or higher by Standard & Poor's Corporation and Moody's Investment Services. Investment Grade bonds are higher quality than high yield bonds and have lower credit risk.

Treasury Securities - A bond that is a direct debt obligation of the U.S. government issued by the U.S. Treasury. Backed by the "full faith and credit" of the United States, these bonds are considered among the safest investments carrying AAA/Aaa ratings.

Agency Bonds - Debt obligations issued by government sponsored organizations such as the Federal Home Loan Bank and Federal Land Bank. After Treasuries, agency bonds are considered the next highest quality securities in the domestic fixed income market.

Municipal Bonds - Bonds issued by a state or local government or one of its agencies to supplement tax revenues for use in operating or capital expenditures.

Mortgage Backed Security - A security in which a group of mortgages are pooled together and act as collateral for the issuance of the security. The Principal and interest payments of the underlying mortgages are "passed-through" to the security holder. These securities are issued through governmental agencies.

Asset Backed Securities - Debt securities representing pools of consumer loans, typically auto loans or revolving consumer debt.

Credit Bonds - Debt obligations issued by private corporations.

High Yield - Bonds rated BB (Ba) or lower by Standard & Poor's Corporation and Moody's Investor Service. High Yield bonds are lower quality than investment grade bonds and have greater credit risk.

Quality Rating - A measure of a bond issuer's credit quality, or its ability to meet future contractual obligations. Two widely used bond ratings systems are Moody's and Standard & Poors.

Coupon Rate – the annual rate of interest paid to the bond holder.

Yield to Maturity – Internal rate of return on a bond bought at the current price and held to maturity. This assumes that coupon income is reinvested at the yield to maturity.

Quantitative Terms

Alpha - a measure of value added by the manager. Specifically, alpha is the excess portfolio return compared to the risk-adjusted benchmark.

Beta - A measure of a stock's (or portfolio) price and performance volatility relative to the market (benchmark index). A beta of 1.00 means a stock has exhibited the same volatility as the market over the period measured. A beta of 0.85 means, in general, a stock is less volatile than the market (moves 0.85% for each 1.00% move in the market) where a beta of 1.15 means a stock is more volatile than the market.

Batting Average - A measure of a manager's ability to beat the market consistently.

Correlation Coefficient - a statistical measure of the degree to which the movements of two variables are related. A correlation of 1.0 indicates a perfect correlation. A correlation of 0.0 indicates a random relationship between the returns and a correlation of -1.0 indicates a perfect negative correlation (same magnitude in different directions).

Diversification - The reduction in risk that is sought by investing in assets that are not perfectly positively correlated. Diversification is the spreading of risk among a number of different investment opportunities.

Down market - A quarter in which the market return is negative.

Down-Market Capture Ratio - A measure of managers' performance in down markets relative to the market itself.

Information Ratio - A measure of the consistency of value added by an investment manager. Specifically the information ratio is the alpha divided by the variability of the alpha.

Peer Universe - a broadly defined group of investment managers (mutual funds) who employ a similar investment style.

R-squared - a measurement of how closely a portfolio's performance correlates with a benchmark Index.

Sharpe Ratio - A risk-adjusted ratio, developed by William Sharpe, calculated by using standard deviation and excess return to determine reward per unit of risk. The higher the ratio the better the fund's historical risk-adjusted performance.

Standard Deviation - A measure of the dispersion of a set of numbers around the average.

Time Weighed Rate of Return – A rate of return calculation that takes cash flow into consideration. Time-weighted rates of return by definition are calculated to minimize the effect of cash flows into and out of the portfolio.

Tracking Error - The amount by which the performance of the portfolio differed by that of the benchmark.

Turnover - volume of shares traded as a percentage of total shares currently held in the portfolio during a given period of time.

Up market - A quarter in which the market return is positive.

Up Market Capture Ratio - A measure of managers' performance in up markets relative to the market itself.